Manitoba
February, 2005

OFFICE OF THE

AUDITOR GENERAL

Voluntary Sector Grant Accountability: Perspectives and Practices

Enhancing Board Governance in Not-For-Profit Organizations

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Office of the Auditor General
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February 2005

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my report on the *Voluntary Sector Grant Accountability: Perspectives and Practices* and *Enhancing Board Governance in Not-for-Profit Organizations* to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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VOLUNTARY SECTOR GRANT ACCOUNTABILITY: PERSPECTIVES AND PRACTICES

This report presents the findings obtained from interviews with voluntary sector grant recipients on strategic planning, performance measurement and performance reporting. The grant recipients interviewed receive funding from the Department of Culture, Heritage and Tourism or the Manitoba Arts Council. The report also shares the views of both of these funders in relation to our observations, conclusions, and recommendations.

The recommendations in this report are aimed at promoting best practices in performance measurement and reporting. These activities are inextricably linked to planning and continuous improvement. Thus the purpose of performance measurement is not simply to know how an organization is performing; it is to enable it to perform better in the future. It is also important to point out that the recommendations contained in this report are not only relevant for funders - the Department of Culture, Heritage and Tourism and the Manitoba Arts Council - but also for grant recipients. I believe that those who receive public monies have a responsibility to be proactive in ensuring accountability and in managing public resources.

I recognize the challenges that the voluntary sector currently faces with the decline in volunteerism, the inability of funding to keep up with demand, the skills and capacity building requirements, the resources needed to apply for various sources of funding, and the fulfillment of reporting requirements of the Department of Culture, Heritage and Tourism, and the Manitoba Arts Council. Within this context, I believe that if properly managed, the recommendations in this report can be implemented in a staged fashion according to a plan of action that makes sense to grant recipients and funders. In this regard, we encourage dialogue between the Department of Culture, Heritage and Tourism, the Manitoba Arts Council and grant recipients to ensure that the intent and spirit of the recommendations is fulfilled in a manner that is feasible over time for all parties. To this end, incremental steps are positive as long as they are undertaken within a clear, planned framework and not on an ad hoc basis. As a way to facilitate the process of moving towards best practices in performance measurement and reporting, the final section of this report addresses some of the typical challenges of performance measurement and reporting, and suggests some practical approaches to dealing with these challenges.

Jon W. Singleton, CA•CISA

Executive Summary

THE VOLUNTARY SECTOR

Voluntary sector organizations encompass entities that are non-governmental and institutionally separate from government and business. They are self-governing and typically rely on a volunteer board and/or volunteer participation in programs. In some cases even the management of the organization is partly or entirely run by volunteers. These organizations do not return a profit to their owners or their board of directors. The essential aim of voluntary sector organizations is to provide services and programs which are of public benefit.

Manitoba's voluntary sector consists of over 8,000 organizations.[1] Within the broad range of services and programs being offered through the voluntary sector, the number of organizations devoted to culture and recreation is one of the largest. Out of 1,187 Manitoba voluntary sector survey respondents, 22.2% (263 organizations) indicated that their organization is involved in culture and recreation. Social services is the second largest service area with 17.5% of respondents (208 organizations) identifying this as their purpose.[2]

PURPOSE, SCOPE AND APPROACH

We selected one of the largest service/program areas - arts, historic resources and recreation - as the focus of this review. From this service/program area we chose 17 organizations of which 12 receive funding from the Department of Culture, Heritage and Tourism (Department) through the Culture, Heritage and Recreation Program Division (Division) and 5 receive funding through the Manitoba Arts Council (MAC). The 17 organizations in the sample were selected to reflect a cross-section of sizes, budgets, and service types. **Appendices A** and **B** provide a listing of the grant recipients in the sample who are funded through the Department and MAC respectively as well as the amount of grant funding each receives.

The objectives of our work were to answer the following questions:

1. Have the Division and MAC identified clear and appropriate performance expectations that it has of voluntary sector grant recipients?
2. Have the Division and MAC identified relevant expectations regarding performance information to be provided by voluntary sector grant recipients to the Division and MAC?
3. As far as voluntary sector grant recipients are aware, is the performance information that they prepare at the request of the Division and MAC being used for decision-making?

[1] Manitoba Voluntary Sector Initiative. The Final Report on the Policy Summit. January 17-18, 2003 Winnipeg and Brandon, Manitoba. Appendix 3, page 71.

[2] Child and Family Services Research Group Faculty of Social Work University of Manitoba. The Status of Manitoba's Voluntary Sector: An Omnibus Survey. January 2003. Page 18.

4. Are voluntary sector grant recipients who receive public funding reporting appropriate performance information to the public?
5. From the perspective of voluntary sector grant recipients, what do they consider to be relevant performance reporting?

Our work involved:

- developing a set of principles and criteria based on best practices literature in the field of performance measurement and reporting to guide the review (**Appendix C**).
- interviews with the executive directors or equivalents from each of the 17 voluntary sector grant recipient organizations in our sample; and
- obtaining the perspective of the Division and MAC on the observations from interviews, findings and recommendations.

The time frame for the review covered the period of April 1, 2002 to March 31, 2003.

CONCLUSIONS

In relation to the five key questions we examined, the conclusions we arrived at based on interviews and documents that were reviewed are presented below.

Principle 1: Performance Expectations Should be Clear and Appropriate

The Division

Although the Division has some appropriate performance expectations in place, there are inconsistent requirements between programs. It may be that different programs require different performance expectations. The rationale for differences in performance expectations needs to be clarified and documented by the Division. Greater clarity is also needed on the part of the Division in communicating to grant applicants/recipients its program goals and overall goals for the arts, historic resources and recreation sector.

MAC

MAC has clear performance expectations of grant recipients and has established an appropriate base of performance expectations to take it to the next level of evolution, namely towards:

- the establishment of performance targets for programs being funded; and
- the expectation that grant recipients develop specific performance targets and measure and report on their performance in relation to specific outputs and outcomes.

Principle 2: There Should Be Relevant Expectations regarding Performance Information

The Division

The type of performance information that the Division expects grant recipients in our sample to provide is not sufficiently relevant to enable the Division to effectively monitor whether its program outcomes are being achieved through the funding provided and whether grant recipients are carrying out their mandate as effectively and efficiently as possible.

MAC

The type of performance information that MAC requests from grant recipients represents a positive beginning towards being able to effectively monitor whether its program outcomes are being achieved through the funding provided and whether grant recipients are carrying out their purpose as effectively and efficiently as possible. However, the relevance of the performance information that MAC requests from grant recipients would be enhanced if:

- it were based on quantitative and qualitative performance measurement data thus increasing MAC's ability to draw conclusions on the effectiveness and efficiency of the organizations it funds; and
- grant recipients were expected to demonstrate in quantitative and qualitative terms how they are contributing to the achievement of MAC's program goals thereby providing MAC with the basis for drawing conclusions on the extent to which grant funding is achieving its program goals.

Principle 3: Performance Information Should Be Used Appropriately

The Division and MAC

While performance information provided by grant recipients to the Division and MAC may well be used appropriately by the Division and MAC, grant recipients do not have a firm sense of how the performance information they provide to the Division and MAC is used or how it impacts their level of funding.

Principle 4: There Should Be Appropriate Performance Information in Performance Reports

The Division and MAC

While there are some elements that reflect the principles of appropriate performance reporting in the annual reports we reviewed from grant recipients in our sample, generally there is a significant opportunity to develop them into documents that would constitute appropriate performance reporting.

Principle 5: Grant Recipients should Provide the Public with Relevant Performance Information

The Division and MAC

While interviewees believe it is important to be accountable for the funding they receive, their perspective on what constitutes relevant performance information tends to focus more on accounting for funding by itemizing activities and strategies undertaken rather than outcomes achieved.

RECOMMENDATIONS

For the Division and MAC

That the Division and MAC:

1. *Ensure that they have goals, objectives and performance targets for each of the programs they fund and that these are communicated to their grant recipients.*
2. *Systematically measure whether their funding to grant recipients is achieving their program goals, objectives and performance targets.*
3. *Review program requirements to ensure that differences in requirements between programs are justified and documented. (While the nature of each program should dictate the types of requirements that the funder has of grant recipients, and a one-size fits all approach may be unreasonable, there are some requirements that are appropriate in all contexts such as strategic planning and performance measurement that focus on outputs and outcomes.)*
4. *Coordinate the development of guidelines to be provided to grant recipients on performance measurement and evaluation.*
5. *Require all grant recipients to prepare strategic plans that are consistent with best practices.*
6. *Review strategic plans prepared by grant recipients to ensure that they reflect best practices in strategic planning, and advise grant recipients accordingly.*
7. *Require grant recipients to report to them using performance measures that link to the expected outputs and outcomes of the grant recipient.*
8. *Ensure that there is capacity-building support through the Division and MAC or another organization to assist grant recipients to develop quantitative and qualitative measures that relate to their performance in generating outputs and their achievement of immediate, intermediate and long-term outcomes.*
9. *Ensure that the type of performance information that is requested of grant recipients enables the Division and MAC to draw conclusions on whether performance is improving, declining or static, and whether grant recipients are functioning effectively and efficiently.*

10. *Clarify in writing for grant recipients why the Division and MAC request the type of information they seek and how they use the information.*

11. *Offer an annual group session to those grant applicants/recipients who wish to attend to provide them with a briefing on the type of information being sought from grant applicants/recipients and the basis for requesting such documentation.*

12. *Provide grant recipients with explanations in writing about the reasons for the level of funding awarded to them including any changes needed to performance and the quality of information that they submitted to the Division and MAC.*

13. *Examine the feasibility of developing a funding model which rewards improvements in performance and creates an incentive for on-going improvements.*

14. *Use the December 2002 report of the Office of the Auditor General entitled, Performance Reporting in Annual Reports: Current Practices Among Crown Entities (www.oag.mb.ca) as the basis for developing annual report guidelines that are tailored to the context of the voluntary sector grant recipients for their use in reporting to the Division, MAC, and the public.*

15. *Ensure that there is capacity-building support through the Division and MAC or another organization to assist grant recipients to prepare performance reports that are consistent with the attributes of effective reporting outlined in the December 2002 Auditor General's Report to the Legislature.*

16. *Modify their annual report to identify individual grant recipients, the allocation they received, and the Division/Provincial and MAC outcomes achieved by funding these voluntary sector organizations.*

17. *Use the data they receive from grant recipients as the basis for periodically preparing sectoral trends data in a document that is available to voluntary sector organizations and others who may want it.*

For the Division

That the Division:

1. *Develop and make publicly available comprehensive provincial arts, historic resources, and recreation goals.*

2. *Monitor MAC's pilot project on multi-year funding commitments to determine the merits of instituting a similar funding arrangement with its grant recipients.*

3. *Examine the feasibility of developing an application form that is consistent with the one used by other major funders such as MAC, Canada Council, and the City of Winnipeg. (Recently MAC changed its application to a format similar to Canada Council's and those interviewed who receive funding through MAC remarked on the time saving this has produced for them).*

For the Voluntary Sector

That the voluntary sector:

1. *Collaborate with each other for the purpose of identifying the types of policies that they would want the Department of Culture to incorporate into a provincial arts, historic resources and recreation policy framework.*
2. *Initiate a collaboration with major funders of the arts, historic resources and recreation sector to identify overlaps and gaps in funding programs, and to ensure the co-ordination of funding programs to maximimize the potential benefit of resources.*
3. *Initiate a collaboration with major funders of the arts, historic resources and recreation sector to identify issues, including the type of training support they may need, in relation to developing quantitative and qualitative performance indicators.*
4. *Collectively initiate discussions with the Division and MAC to gain a better understanding of the relevance of the type of information that these funders require in order to consider funding requests and to identify opportunities for streamlining the type of information requested annually.*
5. *Collectively initiate discussions with the Division and MAC in regard to opportunities for linking level of funding to the achievement of performance results.*
6. *Collectively initiate discussions with the Division and MAC with respect to the development of a common set of public reporting guidelines that are suitable for the sector's context and consistent with the Auditor General's December 2002 Report entitled, Performance Reporting in Annual Reports: Current Practices Among Crown Entities (www.oag.mb.ca).*

COMMENTS FROM OFFICIALS

Each section under Part 2 ends with comments provided by the Division, and MAC regarding the recommendations.

RESPONSE FROM GOVERNMENT

We strongly support a collaborative effort between our Department of Culture, Heritage and Tourism, the Manitoba Arts Council and grant recipients to establish best practices in this area. Learning from each other, and establishing a common framework and objectives, is clearly an undertaking which will benefit Manitobans in general and especially those involved in cultural programs. The recommendations made in the report will be useful to all concerned in developing a coordinated process with reasonable expectations and desirable outcomes. We will be monitoring progress in that regard.

Part 1 - Background

1.1 THE VOLUNTARY SECTOR

Voluntary sector organizations encompass entities that are non-governmental and institutionally separate from government and business. They are self-governing and typically rely on a volunteer board and/or volunteer participation in programs. In some cases even the management of the organization is partly or entirely through volunteers. These organizations do not return a profit to their owners or their board of directors.

The essential aim of voluntary sector organizations is to provide services and programs which are of public benefit. The services and programs delivered through the voluntary sector are wide ranging and include: the arts, health, the environment, sports, recreation, education, advocacy, and community and social development.

Roughly 60% of the voluntary sector's revenues are derived from government sources - federal, provincial and municipal.[1] The largest contribution comes from provincial and territorial governments. A recent survey of Manitoba's voluntary sector confirms this. Out of 1,286 respondents 31.65% receive provincial funding, 16.10% receive federal funding and 10.11% receive municipal funding.[2] The sector receives additional government benefits in the form of charitable tax credits and GST rebates estimated at $1.5 billion in 1997/98.[3]

Manitoba's voluntary sector consists of over 8,000 organizations.[4] Within the broad range of services and programs being offered through the voluntary sector, the number of organizations devoted to culture and recreation is one of the largest. Out of 1,187 Manitoba voluntary sector survey respondents, 22.2% (263 organizations) indicated that their organization is involved in culture and recreation. Social services is the second largest service area with 17.5% of respondents (208 organizations) identifying this as their purpose.[5]

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[1] Katherine Scott. Funding Matters. Summary Report. Canada: Canadian Council on Social Development. Page 7.

[2] Child and Family Services Research Group Faculty of Social Work University of Manitoba. The Status of Manitoba's Voluntary Sector: An Omnibus Survey. January 2003. Page 19.

[3] Katherine Scott. Funding Matters. Summary Report. Canada: Canadian Council on Social Development. Page 7.

[4] Manitoba Voluntary Sector Initiative. The Final Report on the Policy Summit. January 17-18, 2003 Winnipeg and Brandon, Manitoba. Appendix 3, page 71.

[5] Child and Family Services Research Group Faculty of Social Work University of Manitoba. The Status of Manitoba's Voluntary Sector: An Omnibus Survey. January 2003. Page 18.

According to research undertaken by the Manitoba Voluntary Sector Initiative[6], Manitoba's voluntary sector faces a number of challenges such as[7]:

- increasing funding requirements;
- increased and complex accountability requirements;
- increased demand for services;
- increased staff/volunteer burnout;
- decreased community support;
- donor fatigue;
- increased competition for funding;
- declining volunteer contributions; and
- decreased government funding.

1.2 PURPOSE, SCOPE AND APPROACH

Purpose and Scope

One of the priorities of the Office of the Auditor General is to promote best practices in strategic planning, performance measurement and performance reporting. Over the past few years, the Office of the Auditor General has released several reports to the Legislature on these topics largely focusing on practices within government organizations (see www.oag.mb.ca for reports). In recognition of the significant level of Manitoba Government grant funding to voluntary sector organizations to deliver programs and services to citizens, we examined the perspectives of such organizations on strategic planning, performance measurement and public reporting on performance.

We selected one of the largest service/program areas - arts, historic resources and recreation - as the focus of this review. From this service/program area we selected 17 organizations of which 12 receive funding from the Department of Culture, Heritage and Tourism (Department) through the Culture, Heritage and Recreation Programs Division (Division), and 5 receive funding through the Manitoba Arts Council (MAC). The 17 organizations in the sample were selected to reflect a cross-section of sizes, budgets, and service types. **Appendices A** and **B** provide a listing of the grant recipients in the sample who are funded through the Division and MAC respectively as well as the amount of grant funding each receives.

The objectives of our work were to answer the following questions:

1. Have the Division and MAC identified clear and appropriate performance expectations that it has of voluntary sector grant recipients?

[6] In 2001/02 the Manitoba Voluntary Sector Initiative was established for a three year term to improve the effectiveness and long-term sustainability of the voluntary sector. It was guided by an adivsory committee named The Voluntary Sector Council. The Volunteer Centre of Winnipeg led the Initiative with the support of core partners which include the Social Planning Council of Winnipeg, the Winnipeg Foundation, United Way of Winnipeg, and Arts Stabilization Manitoba Inc. Funding for the Initiative was provided from the three levels of government and the Thomas Sill Foundation Inc.

[7] The Secretariat on Voluntary Sector Sustainability. Qualitative Research on Manitoba's Voluntary Sector Challenges. May 2002. Page 8.

2. Have the Division and MAC identified relevant expectations regarding performance information to be provided by voluntary sector grant recipients to the Division and MAC?
3. As far as voluntary sector grant recipients are aware, is the performance information that they prepare at the request of the Division and MAC being used for decision-making?
4. Are voluntary sector grant recipients who receive public funding reporting appropriate performance information to the public?
5. From the perspective of voluntary sector grant recipients, what do they consider to be appropriate performance reporting?

Approach

The process involved:

- Developing a framework of principles and criteria (**Appendix C**) based on best practices literature on performance measurement and reporting;
- Using the framework of principles and criteria in **Appendix C** to guide the development of interview questions;
- Conducting individual interviews with executive directors or equivalents from each of the 17 organizations in the sample using a common set of interview questions;
- a review of documentation provided to us from those interviewed – i.e., grant application forms and/or letters advising grant recipients of the information they must submit in order to receive funding;
- a review of the performance information contain in 2002/03 annual reports of organizations in the sample; and
- obtaining the perspectives of the Division and MAC on the observations from interviews, findings and recommendations.

The time frame for the review covered the period from April 1, 2002 to March 31, 2003. The field work took place between April and June 2004.

1.3 THE DEPARTMENT OF CULTURE, HERITAGE AND TOURISM

The mission of the Department in 2002-2003 was *"to lead government in developing and promoting the well being of all Manitobans"* and its vision is of *"a province with a great quality of life for all people"*.[8] In working towards its mission and vision the Department awarded $28.7 million in grants between April 1, 2002 and March 31, 2003.

The largest allocation of grants, $24.0 million is awarded by the Division that *"supports, creates and develops a broad range of cultural, arts, heritage, recreation, wellness, fitness and library services, programs, and opportunities which benefit Manitobans and their communities"*.[9] The Division consists of the Assistant Deputy Minister's office and five

[8] Manitoba Culture, Heritage and Tourism. Annual Report 2002-2003. Page 8.

units: Major Agencies, the Arts Branch, Public Library Services, Historic Resources, and Recreational and Regional Services. Each of these units provides direct funding annually to voluntary sector organizations. As well, the Division provides indirect funding to voluntary sector organizations through its annual grant to the MAC (**Section 1.4**). **Figure 1** gives a breakdown of the grant programs offered through the five units within the Division.

Figure 1 shows that 4.5 full-time staff equivalents are responsible for grants administration. In this regard two points should be noted. Firstly, the Administration and Finance Branch of the Department provides support services to grant administration in the form of issuing grant payments. Secondly, grant administration represents a small component of the Division's activities. The division consists of 89.15 full-time staff equivalents whose other responsibilities apart from grant administration, include: policy development, administration of various statutes, community development, client consultation, organizational development, and regulation, protection and preservation of significant heritage resources.

FIGURE 1

Department of Culture, Heritage and Tourism Division Grants

Type of Grant Assistance	Branch Objectives	2002/03 Actual Expenditure ($000s)	Number of Full-Time Staff Equivalents Assigned to Grant Administration
Cultural Organizations (Major Agencies)	• To provide operating grants, capital grants and consultative services to Manitoba's major cultural agencies and facilities established by legislation or contract for the benefit of all Manitobans.	7,880.6	0.25
Arts	• To support and facilitate the growth, development and sustainability of Manitoba arts and of Manitoba's arts-based and cultural industries in order to promote and enhance the creativity, identity and well-being of Manitobans and accelerate the arts' contribution to the economic viability and the global profile of the Province.	4,835.6	2.0
Public Library	• To support the development of strong community based public library services in the Province and to ensure that all Manitobans have access to public library services.	4,508.0	1.0
Historic Resources	• To ensure that Manitobans value their heritage as worth keeping and worth sharing. • To support communities and individuals in their efforts to identify, protect and celebrate their heritage as part of economic vitality and quality of life.	952.5	0.5
Recreation and Regional Services	• To improve individual well-being and to foster the social and economic health of communities through recreation, physical activity and wellness promotion. • To provide consultation and access to resources, in partnership with branches and agencies of other Provincial and Federal Government departments and community organizations. • To support rural and northern communities in encouraging sustainable growth and improved quality of life.	992.6	0.75
	Sub-total	19,169.3	
Manitoba Arts Council	• To promote the study, enjoyment, production and performance of works in the arts.	7,317.3	
	TOTAL	26,486.6	4.5

[9] Manitoba Culture, Heritage and Tourism. Annual Report 2002-2003. Page 17.

1.4 THE MANITOBA ARTS COUNCIL

The Manitoba Arts Council (MAC) was created by an Act of the Manitoba Legislature in 1965 to *"promote the study, enjoyment, production and performance of works in the arts"*.[10] A fifteen member Board of Directors appointed by order-in-council directs MAC's operation. MAC reports on its grant allocations from the Division through an annual report which is tabled in the Legislature separately from the Department's annual report. (It should be noted that while MAC's primary revenue source is provincial funding, it has other less significant revenue sources including investment income.) In contrast to the Division, MAC's primary role is issuing of grants. **Figure 2** provides a breakdown of the grant programs offered through MAC.

FIGURE 2

Manitoba Arts Council Grants

Type of Grant Assistance	Grant Program Objectives	2002/03 Annual Expenditures ($000s)	Number of Full-Time Staff Equivalents Assigned to Grant Administration
Grants to Organizations	• This grant provides on-going support to a variety of key presenting organizations, organizations in the visual arts, to selected Manitoba book and magazine publishers, as well as to arts service organizations and to selected organizations committed to the training of professional artists in dance and theatre.	5,040.7	6.0
Grants to Individuals	• This program is available for projects of less than four months in duration. It allows artists to concentrate on a specific project relating to their artistic work or to help defray the costs associated with travel on occasions important to the applicant's career. Studies leading to a degree are not eligible for support through this program.	936.5	6.0
Arts Development	• This program is intended for projects that assist artists in making the transition to professional status. The program is designated for artists in groups that face barriers to full access in the participation of the professional arts.	654.7	3.0
Bridges Fund	• These additional funds are awarded to arts organizations receiving annual or operating grants to enable them to explore artistic or administrative strategies to maintain artistic quality and choices within their current operations.	640.1	3.0
	TOTAL	7,272.0	18.0

[10] Manitoba Arts Council. 2002-2003 Manitoba Arts Council Annual Report. Page 18.

Part 2 – Observations, Conclusions And Recommendations

Part 2 is divided into five sections each of which deals with one of the key questions of the review identified under **Section 1.2**. The observations and conclusions that relate to the Division and MAC are presented separately in each section.

For information on the review criteria see **Appendix C.**

The five sections covered in Part 2 are as follows:

Section 2.1

Key Question:

Have the Division and MAC identified clear and appropriate performance expectations that it has of voluntary sector grant recipients?

Principle:

A funder should set clear and appropriate performance expectations.

Section 2.2

Key Question:

Have the Division and MAC identified relevant expectations .egarding performance information to be provided by voluntary sector grant recipients to the Division and MAC?

Principle:

A funder should establish relevant performance information requirements.

Section 2.3

Key Question:

As far as voluntary sector grant recipients are aware, is the performance information that they prepare at the request of the Division and MAC being used for decision-making?

Principle:

A funder should use performance information provided by a grant recipient appropriately.

Section 2.4

Key Question:

Are voluntary sector grant recipients who receive public funding reporting appropriate performance information to the public through their annual reports?

Principle:

A grant recipient should prepare appropriate public performance reports.

Section 2.5

Key Question:

From the perspective of voluntary sector grant recipients, what do they consider to be relevant performance reporting?

Principle:

Grant recipients should provide the public with relevant performance information.

2.1 CLEAR AND APPROPRIATE PERFORMANCE EXPECTATIONS

Key Question:

Have the Division and MAC identified clear and appropriate performance expectations that it has of voluntary sector grant recipients?

Principle:

A funder should set clear and appropriate performance expectations.

Voluntary sector organizations that receive public funding should be clear on the performance expectations that a funder has of them and should understand why such expectations are appropriate. This requires a funder to share the goals it has in relation to the grant it provides and to establish the type of planning and performance measurement expectations that it has of the grant recipient.

In the absence of clear and appropriate performance expectations, a funder cannot determine the impact that the grant is having on the organization that is the recipient of the funding nor whether the grant is achieving a funder's goals. In such circumstances, recipients develop their own performance expectations which may or may not be consistent with a funder's expectations. Clear performance expectations enable a funder to assure themselves that the grant recipient is managing their organization with a focus on results.

Without the establishment of performance expectations, it becomes virtually impossible for a funder to determine if value for money is being achieved. It also makes it more challenging for a funder to demonstrate proper accountability to the public with respect to the achievements that have resulted from grant expenditures.

The risk of not planning for performance results is that it can jeopardize viability and sustainability of an organization. It also makes it more difficult for both a funder and a grant recipient to make a diagnosis of the causes of organizational difficulties should these arise. Thus performance measurement provides grant recipients with data to help them identify strengths, weaknesses and areas that need improvement.

Observations Based on Information from Division Grant Recipients

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

Criteria: Division Setting and Communicating Its Funding Goals

- Grant recipients want to be in a position to set their own goals for which they are accountable to the Division. The observation was generally made by interviewees that the Division does not place specific performance expectations on them. Rather, it lets grant recipients establish their own goals.
- Interviewees noted that generally they come to know Division/program priorities through verbal communication from program staff either through telephone contact or meetings.
- Funding for the 12 organizations in the sample is provided under one of 5 different programs. Only 2 of the 5 programs - the Special Theme Museums Program, and the Provincial Heritage Agencies Program - communicate in writing to grant applicants the program objectives. In relation to those two programs, interviewees pointed out that the program objectives tend to be very broad in nature and sometimes they cannot determine how to make these apply to their organization.
- The Division has not established performance targets for individual programs or for the arts, historic resources and recreation sector.

Criteria: Strategic/Business Plan Requirements

- The 12 organizations in the sample receive funding under one of 5 programs. Only the Special Theme Museums Program requires grant recipients to prepare a strategic plan. However, almost all the organizations in the sample decided it is in their best interest to have a strategic plan: of the 12 organizations in the sample, 9 have a strategic plan and 3 are in the process of developing one.
- Strategic plans are not monitored by the Division in terms of whether they are consistent with best practices.

Criteria: Establishing Performance Level

- Interviewees indicated that the Division does not enter into signed agreements with them with respect to mutually agreed upon outputs and outcomes that a grant recipient undertakes to achieve within a defined time frame. Grant recipients in the sample pointed out however that they are expected to submit on an annual basis their program of activities and budget.

Criteria: Performance Measurement

- As can be seen from **Figure 3**, generally, the Division has not placed the expectation on grant recipients that they identify to the Division the outputs and outcomes of planned goals and program activities. There are exceptions to this in relation to two programs (**Figure 3**).

*Criteria: **Reporting On Actual Versus Planned Results***

- Interviewees indicated that they are expected to report to the Division annually on their performance but that the Division has not placed an expectation on grant recipients that their reporting should specifically deal with variances between planned measurable results and actual results.

*Criteria: **Requiring an Audited Financial Statement***

- Generally audited financial statements are required to be submitted by grant recipients. A couple of exceptions are identified in **Figure 3**.

*Criteria: **Setting Time Frames for Reporting***

- Interviewees indicated that they are expected to provide progress reporting within deadlines established by the Division.

*Criteria: **Continuous Improvement Goals***

- While interviewees indicated that they have regular contact with Division staff there does not exist a systematic process for annually meeting with Division staff to receive feedback in relation to a grant recipient's reporting and to discuss and agree upon specific improvement goals in light of actual performance or challenges identified by a grant recipient.

*Criteria: **Establishing Guidelines***

- Within the sample of organizations surveyed, guidelines/templates for grant applicants/recipients are used by the Division with a limited number of grant applicants/recipients in the sample (**Figure 3**).

Requirements the Division Has Of Grant Recipients and Documentation Provided By The Division*												
Range of Division Expectations from Grant Recipients (with documentation in writing of the request)[1]	**Entity 1**	**Entity 2**	**Entity 3**	**Entity 4****	**Entity 5**	**Entity 6**	**Entity 7**	**Entity 8**	**Entity 9**	**Entity 10**	**Entity 11**	**Entity 12**
Strategic/Business Plan	✓					✓						
Identification of Goals						✓	✓	✓				
Planned Activities for Upcoming Year		✓	✓		✓	✓	✓	✓		✓	✓	✓
Publicity									✓			
Identification of Performance Measures						✓						
Evaluations/Audits		✓	✓			✓	✓	✓				
Role and Mission/Mandate		✓	✓		✓	✓	✓	✓				
Constitution/By-Laws		✓	✓		✓							
List of Board of Directors		✓	✓		✓	✓	✓	✓				
Develop Board Governance Structure	✓											
Board Development or Volunteer Training					✓							
Organizational Chart		✓	✓									
Number of Staff in each Program		✓	✓		✓	✓	✓	✓				
Senior Staff Titles		✓	✓		✓	✓	✓	✓				
Number of Union and Non-Union Staff		✓	✓									
Number of Volunteers						✓	✓	✓				
Size of Membership					✓	✓	✓	✓				
Cost Variance Reporting						✓						
Budget for Prior Year	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Budget for Upcoming Year	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Plan to Deal with Outstanding Deficit (where applicable)	✓	✓	✓									
Annual Report		✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
Financial Statement (audited)	✓	✓	✓		✓	✓				✓	✓	✓
Financial Statement (unaudited)							✓	✓				
Statement of Income and Expenses									✓			
Range of Documentation Provided by the Division to Grant Recipients												
Program Objectives/Priorities						✓	✓	✓				
Statement of Key Result Areas						✓	✓	✓				
Application Form					✓		✓	✓				
Planning Chart Template to be Completed by Applicant						✓	✓	✓				
Business Plan Guidelines						✓						
Guidelines on Developing Goals, Objectives and Actions						✓	✓	✓				
Annual Report Guidelines						✓			✓			
"Specific Expectations"					✓							

* Entities 1, 2 and 3, funded under Cultural Organizations Grant Assistance Program.
* Entities 4 and 5, funded under Arts Grant Assistance.
* Entity 6, funded under Special Theme Museums.
* Entities 7 and 8, funded under Provincial Heritage Agencies.
* Entities 9 to 12, funded under Recreation and Regional Services Grant Assistance.

** The entity advised that provincial funding was established 10 years ago for general operating purposes, and the Division does not place requirements on the organization in terms of what it is expected to submit annually in order to continue receiving the grant. The funding agreement states that the entity shall provide the Department with such reports, in such form and frequency, as the Department may reasonably require.

1 The Division advises they have additional documentation on file that is obtained through verbal requests of grant recipients through ongoing consultations they have with them.

FIGURE 3

FIGURE 4

Requirements that MAC has of Grant Applicants/Recipients and Documentation Provided by the Division*

Range of MAC Expectations from Grant Applicants/Recipients	Entity 1	Entity 2	Entity 3	Entity 4	Entity 5
Strategic/Business Plan	✓		✓	✓	✓
Objectives and Strategies		✓			
Measures		✓			
Marketing Strategy		✓	✓		
Distribution Strategy			✓		
Significant Administrative Challenges and Solutions		✓			
Current Season's Programs, Reviews, Brochures	✓	✓	✓	✓	✓
Notable Accomplishments and Congruence of Activities to Mandate			✓		
Organizational History and Company Profile	✓	✓	✓	✓	✓
List of Board Members and Committees They Serve On	✓	✓		✓	✓
Board Development	✓			✓	✓
Training and Development		✓			
Number of Administrative and Artistic Staff	✓	✓	✓	✓	✓
Number of Temporary/Part-time Staff	✓	✓	✓	✓	✓
Revenue Diversification	✓	✓		✓	✓
Most Recent Monthly Financial Statement	✓	✓	✓	✓	✓
Financial Summary Sheets (template provided by MAC)	✓	✓	✓	✓	✓
Financial Statement (audited)		✓			
Range of Documentation Provided by MAC to Grant Applicants/Recipients					
Program Goals	✓		✓	✓	✓
Funding Assessment Criteria	✓	✓	✓	✓	✓
Guidelines on Strategic Plan Content/Planning Information if Strategic Plan not Prepared	✓	✓	✓	✓	✓
Financial Summary Template to be Completed by Applicant	✓	✓	✓	✓	✓
Application Form	✓	✓	✓	✓	✓
Guidelines on Content of Progress Reporting	✓	✓	✓	✓	✓

* Each of the five entities is funded under a different program.

Other Related Observations Shared by Those Interviewed

Need for Comprehensive Policy Framework for the Arts, Culture and Recreation Sector

- It was generally noted by interviewees that an incremental approach to goal setting for the arts, historic resources and recreation sector tends to direct the attention of grant recipients towards those particular priorities which may change within a short time frame. In that regard, virtually all who were interviewed pointed out that it would be helpful to have a statement of the comprehensive goals/policies that the Provincial Government has for the arts, historic resources and recreation sector. Interviewees cited the following range of benefits of having such goals/policies:
    - It would send a signal to the public of the value that Government places on the role of arts, historic resources and recreation in the quality of community life;
    - Enabling voluntary sector organizations to demonstrate how they contribute to the achievement of Departmental/Division goals for the sector;
    - Enabling the Division to monitor performance in relation to the goals thereby identifying servicing gaps and duplication of services between grant recipients;
    - Voluntary sector organizations would be able to make a case in demonstrating how their organization's activities relate to the program from which they seek funding;
    - Making achievements more measurable for both parties – i.e., the Division and grant recipients would need to demonstrate how the organization being funded is fulfilling Departmental goals; and
    - Enables grant recipients to understand how the information requirements by the Division relate to their goals.

Collaboration and Co-ordination Among Different Funders

- A couple of interviewees identified the need for co-ordination and collaboration between those who provide funding to the sector as a way to rationalize funding and to ensure the needs of the sector as a whole are being met by funders collectively (i.e., public sector funders, foundations or other granting bodies). This approach was encouraged as a means of ensuring that the big picture needs of the arts, historic resources and recreation sector are being addressed and as a way to avoid duplication, overlap and gaps in servicing.

Multi-Year Funding Commitment

- Multi-year funding commitments was suggested by one interviewee as a helpful way for voluntary sector organizations to be able to properly do strategic planning. In this regard it should be noted that MAC is currently conducting a pilot project on three year multi-year funding commitments. There are criteria that must be met in order to maintain eligibility for multi-year funding including a list of non-performance characteristics which could result in MAC placing an organization under "concerned status", and a requirement to undertake certain steps

within two years in order to fully meet MAC's criteria. This approach can facilitate long range planning and streamline the process for annual funding requests by grant recipients. Within the context of the provincial government, there is precedence for multi-year funding commitments in relation to inter-governmental agreements/ partnerships. Such commitments are made subject to annual authorization of expenditures.

Conclusion

Although the Division has some appropriate performance expectations in place, there are inconsistent requirements between programs. It may be that different programs require different performance expectations. The rationale for differences in performance expectations needs to be clarified and documented by the Division. Greater clarity is also needed on the part of the Division in communicating to grant applicants/recipients its program goals and overall goals for the arts, historic resources and recreation sector.

Observations From MAC Grant Recipients

The observations below are presented in relation to the review criteria in **Appendix C**.

Criteria: MAC Setting and Communicating Its Funding Goals

- Those interviewed generally indicated they are clear on the type of performance expectations that MAC has of them. It was suggested by one interviewee however that there is room for MAC to further specify its expectations in relation to artistic merit and suggested that arts groups should work with MAC to develop more concrete criteria around artistic merit.
- With one exception, the application form for the other program areas in the sample identifies the general goals of the program (**Figure 4**).
- In regard to all five programs, application forms present the criteria that applicants must meet (**Figure 4**).
- While performance targets per se are not included in the application, the section in application forms that deals with non-performance identifies conditions that could lead to MAC withholding funding - e.g., an organization has a major deficit (10% or more of its annual operating budget); a significant reduction in audience or sales base; or an organization fails to demonstrate the ability to plan into the future.

Criteria: Strategic/Business Plan Requirements

- Application forms for the five program areas in the sample either expect a strategic plan to be submitted which addresses certain specified topics or that applicants address the following planning matters in their submission – artistic vision, strategies, governance, & financial management. Of the sample of 5 organizations, 3 have a strategic plan, one is in the process of developing a plan, and one has no plans for preparing a plan.

- Strategic plans are not monitored by MAC in terms of whether they are consistent with best practices.

Criteria: Establishing Performance Level

- Interviewees indicated that MAC enters into Funding Agreements with them with respect to the schedule of grant reports and payments. Grant reports are to present variances between planned and actual activities, and variances between budgeted and actual expenditures. Funding Agreements do not set out specific, mutually agreed upon measurable outputs and outcomes that a grant recipient will undertake within defined time frames.

Criteria: Performance Measurement

- Grant recipients advised that they are not required by MAC to develop performance indicators to measure outputs and outcomes of planned goals and program activities. In one application form (for the Theatre Operating Grant) applicants are asked to identify "measures". The form does not specify the types of measures and does not indicate that grant recipients are to report their performance using these measures.

Criteria: Reporting on Actual Versus Planned Results

- Mid-season reporting is required by MAC and MAC provides grant recipients with an outline of the content to be included in these reports that are intended to flag variances between planned goals and activities as well as any changes that have been necessary.

Criteria: Requiring an Audited Financial Statement

- For three of the five programs in the sample audited financial statements are required. In the other two programs, grant recipients must complete financial summary sheets provided by MAC (**Figure 4**).

Criteria: Setting Time Frames for Reporting

- Interviewees indicated that they are expected to provide progress reporting within deadlines established by MAC.

Criteria: Continuous Improvement Goals

- While interviewees indicated that they have regular contact with MAC staff, there does not exist a systematic process for annually meeting with MAC staff to receive feedback in relation to a grant recipient's reporting and to discuss and agree upon specific improvement goals in light of actual performance or challenges identified by the entity.

Criteria: Establishing Guidelines

- In regard to four of the five program areas in the sample, MAC includes in the application form guidelines on the content to be included in the application (**Figure 4**).
- MAC issues an outline with a listing of the specific questions that must be answered in the mid-season report to be submitted by grant recipients.

Conclusion

MAC has clear performance expectations of grant recipients and has established an appropriate base of performance expectations to take it to the next level of evolution, namely towards:

- *the establishment of performance targets for programs being funded; and*
- *the expectation that grant recipients develop specific performance targets and measure and report on their performance in relation to specific outputs and outcomes.*

Recommendations

A. For the Division and MAC

That the Division and MAC:

1. *Ensure that they have goals, objectives and performance targets for each of the programs they fund and that these are communicated to their grant recipients.*
2. *Systematically measure whether their funding to grant recipients is achieving their program goals, objectives and performance targets.*
3. *Review program requirements to ensure that differences in requirements between programs are justified and documented. (While the nature of each program should dictate the types of requirements that the funder has of grant recipients, and a one-size fits all approach may be unreasonable, there are some requirements that are appropriate in all contexts such as strategic planning and performance measurement that focus on outputs and outcomes.)*
4. *Coordinate the development of guidelines to be provided to grant recipients on performance measurement and evaluation.*
5. *Require all grant recipients to prepare strategic plans that are consistent with best practices.*
6. *Review strategic plans prepared by grant recipients to ensure that they reflect best practices in strategic planning, and advise grant recipients accordingly.*
7. *Require grant recipients to report to them using performance measures that link to the expected outputs and outcomes of the grant recipient.*
8. *Ensure that there is capacity-building support through the Division and MAC or another organization to assist grant recipients to develop quantitative and qualitative measures that relate to their performance in generating outputs and their achievement of immediate, intermediate and long-term outcomes.*

B. For the Division

That the Division:

1. *Develop and make publicly available comprehensive provincial arts, historic resources and recreation goals.*
2. *Monitor MAC's pilot project on multi-year funding commitments to determine the merits of instituting a similar funding arrangement with its grant recipients.*

C. For the Voluntary Sector

That the voluntary sector:

1. *Collaborate with each other for the purpose of identifying the types of policies that they would want the Department of Culture to incorporate into a provincial arts, historic resources and recreation policy framework.*
2. *Initiate a collaboration with major funders of the arts, historic resources and recreation sector to identify overlaps and gaps in funding programs, and to ensure the co-ordination of funding programs to maximimize the potential benefit of resources.*
3. *Initiate a collaboration with major funders of the arts, historic resources and recreation sector to identify issues, including the type of training support they may need, in relation to developing quantitative and qualitative performance indicators.*

COMMENTS FROM THE DIVISION

Response to Section 2.1 A - *The report acknowledges that there are differences in performance expectations amongst the twelve entities that were reviewed. To place that in context, the Division offered more than twenty programs and provided over five hundred grants in 2002-03, the year on which this report is based. Grants range from $100.00 to several million and the Division believes that it operates each program appropriately, to reflect the level of provincial investment and the administrative capacity of the program. Grant recipients range from organizations that are entirely volunteer based to professionally run organizations. In recognition of the diversity of the client group, the Division believes it is reasonable that program requirements and expectations have a range of expectations in its programs that reflect the capacity of the clients.*

The report reflects on formal, written correspondence between the Division and the twelve entities and does not consider information that is received by the Division through the consultation process. A file audit of each of the twelve entities reviewed for the report indicates that far more information is received from the clients and is considered in assessing grants and performance.

The Division accepts that Recommendations 1-8 are all sound grants management practices, many of which are in place in several of our

funding programs. The recommendations in the report will be helpful to the Division in our ongoing planning and dialogue with our clientele. The Division will ensure that sound grants management systems are in place reflecting the capacity of the clients and that clients have better access to information about programs and priorities. However, the Division will continue to strike a balance between consultative services and administrative processes that best reflect the needs of the clients.

Response to 2.1 B - *The Division agrees that existing policies on arts, heritage and recreation could be made more readily available to the public and will endeavour to update it's website with that information.*

The Division has the capacity to monitor the MAC pilot project on multi-year funding and will do so. The report notes that the government has the capacity to enter into multi-year agreements with other government entities. There is no agreement at this time for government to consider multi-year funding for grant recipients.

COMMENTS FROM MAC OFFICIALS

1. *Council agrees that each program should have goals, objectives and performance targets and that these are communicated to grant recipients. Currently, Council has goals and objectives for all its programs and is developing performance targets as each policy area is reviewed and confirmed.*

2. *Council supports the systematic measure of whether its funding to grant recipients is achieving their program goals, objectives and performance targets. Currently, Council reports on its overall goals/objectives and its grant support in its annual report and its website. Council plans to incorporate a program-by-program analysis of goals/objectives/targets as part of its program policy development process.*

3. *Council supports the notion that differences in requirements between programs are justified and documented. Currently, all of Council's programs have their own set of guidelines and criteria that, in some cases, are unique to a particular program. This was reflected most recently in the development of the Aboriginal Arts Programs. Council plans to continue to enhance these differences by way of program policy development where requirements take into consideration the strategic plan and Council goals.*

4. *Council agrees that grant recipients be provided with guidelines on performance measurement and evaluation. This is part of the process of developing goals/objectives/performance targets for all of its programs.*

5. *Council agrees that the strategic plans submitted by grant recipients be in accordance with best practices. Currently, Council requests strategic plans of all it annual/operating clients (it is only mandatory for multi-*

year applicants). The guidelines and criteria have been drafted with best practices in mind, so recipients understand on what basis their applications are being assessed. Council plans to develop its funding to organizations policy to incorporate specifics around the requirements of strategic plans that incorporate the principles of best practices.

6. *Council supports the use of strategic plans that reflect best practices and advising grant recipients accordingly. Currently, all organizational grant recipients are requested to submit strategic plans (if they prepare them) or outline the current and next season's programming, governance and business plans. They are provided with a guideline of what to include based on best business practices. Council does not provide feedback to organizations' plans as outlined in their application as the peer assessment process used currently supports the concept of confidentiality of the assessment. The only exception to this is the Book Publishers' Operating Grants. Because this funding is formula based, applicants are provided with the results and some of the assessment panel's comments. A 2005/06 pilot project, the Major Performing Arts Agreement Policy, will see assessments shared with organizations and used as the basis for ongoing performance agreements.*

7. *Council supports the concept of self-assessment, where grant recipients report using performance measures that link to the expected outputs and outcomes of the grant recipient. Currently, Council does not require this level of performance measurement. Council plans to incorporate this concept in the development of its Majors Performing Arts Organizations' Policy where there will be guidelines for organizations to measure and evaluate their own performance (i.e., measure what matters).*

8. *Council supports the notion of support for grant recipients to develop quantitative and qualitative measures that relate to their performance. Currently, most of the information Council collects is quantitative (e.g., # of performances, audiences, personnel, earned/private/public revenues, etc.). Council is aware that in order to develop a funding model that requires performance measurements as outlined by the CCAF, grant recipients will require capacity-building support. As such, this will be incorporated into any funding policy developed in this area and any funding requests made of the Province.*

2.2 RELEVANT EXPECTATIONS OF PERFORMANCE INFORMATION

Key Question:

Have the Division and MAC identified relevant expectations regarding performance information to be provided by voluntary sector grant recipients to the Division and MAC?

Principle:

A funder should establish relevant performance information requirements.

Grant recipients should be able to perceive as relevant the performance information that a funder expects them to submit. Information is relevant if it relates to key aspects of an organization's performance, indicates through quantitative and qualitative data whether performance is improving, static or declining and helps to predict future results.

If data requests from a funder do not focus on what is relevant, then the funder runs the risk of collecting information that does not facilitate effective performance monitoring and detection of problems within the organizations receiving funding. Likewise, relevant performance information enables funders to determine the impact of their funding on those whom they fund.

Observations Based on Information from Division Grant Recipients

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

Criteria: Relationship to Funder's Goals

- Grant recipients indicated that the Division does not expect them to report on how they are contributing to the Division's broad program goals.
- Grant recipients advised that they come to know from their interaction with Division staff that they are expected to be deficit free, financially sustainable and to implement their annual program plan. On that understanding, grant recipients advised that their reporting to the Division focuses on those aspects even though they are not directed by the Division to demonstrate how they are fulfilling such goals.

Criteria: Relates to Grant Recipient's Purpose

- Grant recipients indicated that the Division expects them to report on their progress in implementing their annual program plan. This reporting does not have to relate specifically to a grant recipient's mission, vision and mandate, rather it is expected to demonstrate the extent to which planned programs and activities have been implemented.

- Those interviewed indicated that with the exception of two program areas (the Special Theme Museum Program and the Provincial Heritage Agencies Program) for which the Division has developed reporting templates, the other three program areas in the sample do not have to adhere to a particular reporting format.

Criteria: Demonstrates Organizational Performance

- As **Figure 3** shows, in two of the five program in the sample, the Division asks grant recipients to submit some elements of the type of data which would enable the Division to assess whether grant recipients are functioning effectively and efficiently (the Special Theme Museum Program and the Provincial Heritage Agencies Program). However, the planning templates that grant recipients of these two programs complete as well as reporting requirements by the Division do not include requirements for quantitative and qualitative performance data to be submitted.

Criteria: Consistency with Grant Recipient's Data Collection Needs

- Those interviewed indicated that the information that they have to provide to the Division is generally consistent with the type of data that they collect for planning and managing their operations.

Other Related Observations Shared by Those Interviewed

- While those interviewed find the type of performance information that they have to provide to the Division is reasonable, several observed that they spend a great deal of time applying for and reporting on grant funding and suggested that it would help if funders were to find ways to standardize the terminology for applying and reporting on grants. Those who made this suggestion pointed out that if funders use common terminology it would reduce the amount of time that grant recipients spend on calculating and presenting more or less similar information in several different ways to suit each funder's definitions.

Conclusion

The type of performance information that the Division expects grant recipients in our sample to provide is not sufficiently relevant to enable the Division to effectively monitor whether its program outcomes are being achieved through the funding provided and whether grant recipients are carrying out their purpose as effectively and efficiently as possible.

Observations From MAC Grant Recipients

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

Criteria: Relationship to Funder's Goals

- Grant recipients indicated that in their mid-season reporting to MAC they are not expected to demonstrate how they are contributing to MAC's broad program goals.

Criteria: Relates to Grant Recipient's Purpose

- Application forms ask applicants to outline the connection of artistic vision and goals to their programming.
- Grant recipients report to MAC using a mid-season reporting questionnaire developed by MAC which includes a question on the progress that a grant recipient is making in implementing their goals.

Criteria: Demonstrates Organizational Performance

- Application forms ask grant recipients to outline: their fiscal management practices including cost control measures, provisions for extraordinary circumstances and cost effectiveness; programming relevance and appropriateness in relation to mandate; impact on or benefit to the artistic community from the activities of the organization.

Criteria: Consistency with Grant Recipient's Data Collection Needs

- Those interviewed indicated that the information that they are required to provide to the MAC is generally consistent with the type of data that they collect for planning and managing their operations. It was noted that financial data is the exception in that it needs to be disaggregated or aggregated as the case may be to suit the reporting requirements of MAC. However, grant recipients also noted that they do not find this to be onerous.

Other Related Observations Shared by Those Interviewed

- Grant recipients acknowledged the time saving to them as a result of MAC revising its application forms to bring them in line with the Canada Council application forms. However, several interviewees are of the view that there remains room for MAC to further simplify and streamline the application form and to standardize the type of information they request with that of other major arts and culture funders. In some cases interviewees questioned whether MAC needed all the information it asked for and noted that it would save the smaller under-resourced organizations much time if they did not have to synthesize various bits of information into short write-ups but could instead attach existing documents from which MAC could extract the information it needs. In the case of visual arts it was suggested that MAC should consider other methods of reviewing an artist's work such as websites rather than having grant recipients compile for MAC films, videos, slides, and so forth for jurors to assess (i.e., external specialists in the field that MAC uses to evaluate applications).

Conclusion

The type of performance information that MAC requests from grant recipients represents a positive beginning towards being able to effectively monitor whether its program outcomes are being achieved through the funding provided and whether grant recipients are carrying

out their purpose as effectively and efficiently as possible. However, the relevance of the performance information that MAC requests from grant recipients would be enhanced if:

- *it were based on quantitative and qualitative performance measurement data thus increasing MAC's ability to draw conclusions on the effectiveness and efficiency of the organizations it funds; and*
- *grant recipients were expected to demonstrate in quantitative and qualitative terms how they are contributing to the achievement of MAC's program goals thereby providing MAC with the basis for drawing conclusions on the extent to which grant funding is achieving its program goals.*

Recommendations

A. For the Division and MAC

That the Division and MAC:

1. *Ensure that the type of performance information that is requested of grant recipients enables the Division and MAC to draw conclusions on whether performance is improving, declining or static, and whether grant recipients are functioning effectively and efficiently.*

B. For the Division

That the Division:

1. *Examine the feasibility of developing an application form that is consistent with the one used by other major funders such as MAC, Canada Council, and the City of Winnipeg. (Recently MAC changed its application to a format similar to Canada Council's and those interviewed who receive funding through MAC remarked on the time saving this has produced for them).*

C. For the Voluntary Sector

That the voluntary sector:

1. *Collectively initiate discussions with the Division and MAC to gain a better understanding of the relevance of the type of information that these funders require in order to consider funding requests and to identify opportunities for streamlining the type of information requested annually.*

COMMENTS FROM THE DIVISION

Response to 2.2 A - *The Division agrees that performance information is essential in determining the performance and viability of grant recipients. A file audit of the twelve entities indicates that through both formal written requests and informal consultation, the Division is able to draw reasonable conclusions about the grant recipients. The Division will endeavour to provide more formal correspondence to support consultative services as appropriate.*

Response to 2.2 B - Prior to 2002-03, the Division had collaborated with other arts funders to develop a more "generic" application with consistent terminology. The exercise works well where funders share several clients and could be considered again in certain cases. The Division will review opportunities to collaborate with other funders in this regard.

COMMENTS FROM MAC OFFICIALS

1. *Council agrees that whatever type of performance information that is requested of grant recipients, it enables them to draw conclusions on whether performance is improving, declining or static. Council does acquire quantitative performance information using financial Summary Sheets that contain broad information about Audience, Personnel, Revenues and Expenditures. Council is able to assess through this information whether the grant recipient's performance over a number of years is improving, declining or static given budget, projection and actual data submitted. Grant recipients are required to submit financial statements (audit or review). As to information that reports on the effectiveness/efficiency of the organization (this is particularly true of the Multi-Year Operating Grant to Theatre Organizations where grant recipients submit information on the performances and audiences), some information comes from the panel that assesses the applications (i.e., audiences, quality of performances, reputation of the company, etc.), the program consultant (who attend performances across several organizations and disciplines) and the community itself (through the applications and feedback as part of Council's ongoing consultation process). Most of this qualitative information is anecdotal. Council is exploring the concept of a more robust grants database that provides for the collection of BOTH quantitative and qualitative data.*

2. *Council supports the development of an application that will be consistent between Canada Council and Winnipeg Arts Council. The issue of consistency amongst the arts funders' applications has been of high importance to many of Council's grant recipients. Council plans to explore this further as part of the development of the grants database and the move to an e-granting system that provides recipients with a simpler yet more comprehensive application package which will provide both Council and recipient with more information about the arts sector as a whole, its trends and benchmarking information.*

2.3 APPROPRIATE USE OF PERFORMANCE INFORMATION

Key Question:

As far as voluntary sector grant recipients are aware, is the performance information that they prepare at the request of the Division and MAC being used for decision-making?

Principle:

A funder should use performance information provided by a grant recipient appropriately.

Typically funders request grant recipients to provide them with a range of data and information about their organization and programming. This information is meaningful if used by a funder for analysis, management and ultimately decision-making purposes that affect grant programs and grant recipients. Thus performance information requested by a funder is appropriately used if it serves as a management tool. If performance information does not serve as a management tool then grant recipients are investing time to compile information unnecessarily for funders. In this regard, it is also important that grant recipients have some understanding of how the performance data they provide is used and why it is therefore of value to a funder.

Observations Based On Information From Division Grant Recipients

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

- Generally those who were interviewed said they had no clear sense of how the information they provide to the Division is being used. Interviewees speculated that it was likely used to brief the Minister of Culture and for the Department's annual funding request from Cabinet/ Treasury Board. In one case, it was suggested that if the Department had a funding policy for the arts, historic resources and recreation sector then grant recipients would understand how the data they are asked to provide is relevant to the Department's ability to monitor progress in achieving its own policies.
- Grant recipients indicated that the Division may provide them with verbal feedback on the performance information they submit, however it is not standard practice for the Division to provide written feedback to grant recipients on the quality of information they provide nor on progress they are making in thei. performance. It was suggested by interviewees that written feedback on performance and on the quality of information provided would be useful to grant recipients in terms of letting them know how the Division views them. Written feedback was preferred to verbal feedback because it would give grant recipients a record they could study and refer to when submitting future funding requests or progress reports.

- A few of those interviewed pointed out that they did not perceive any co-relation between level of funding and their actual performance and therefore wondered about the purpose of the information that they provide to the Division. They concluded that the grant allocated to them is based on historical trends and not on improvements they make in their performance.

Conclusion

While performance information provided by grant recipients to the Division may well be used appropriately by the Division, grant recipients do not have a firm sense of how the performance information they provide to the Division is used or how it impacts their level of funding.

Observations Based on Information from MAC Grant Recipients

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

- Generally those who were interviewed said they had no clear sense of how the information they provide to MAC is being used. Interviewees speculated that it was likely used to monitor if grant recipients are accomplishing what they set out to achieve.
- One of the grant recipients noted that their organization receives feedback on its application in the form of comments from jurors (i.e., external specialists in the field that MAC used to evaluate applications). The others suggested that feedback on performance and on the quality of information provided would be useful to them in terms of letting them know how MAC views them.
- Most of those interviewed pointed out that they did not perceive any co-relation between level of funding and their actual performance and therefore wondered about the purpose of the information that they provide to MAC. Those interviewees would like to see a link between performance and level of funding.
- Some interviewees questioned the amount of information they have to provide given that funding remains static regardless. On that score concern was expressed that MAC did not appear to them to be financially planning for the future but rather was accepting whatever level of funding they receive from the Province instead of also searching out additional ways to fund raise.

Conclusion

While performance information provided by grant recipients to MAC may well be used appropriately by MAC, grant recipients do not have a firm sense of how the performance information they provide to MAC is used or how it impacts their level of funding.

Recommendations

A. For the Division and MAC

That the Division and MAC:

1. *Clarify in writing for grant recipients why the Division and MAC request the type of information they seek and how they use the information.*
2. *Offer an annual group session to those grant applicants/recipients who wish to attend to provide them with a briefing on the type of information being sought from grant applicants/recipients and the basis for requesting such documentation.*
3. *Provide grant recipients with explanations in writing about the reasons for the level of funding awarded to them including any changes needed to performance and the quality of information that they submitted to the Division and MAC.*
4. *Examine the feasibility of developing a funding model which rewards improvements in performance and creates an incentive for on-going improvements.*

B. For the Voluntary Sector

That the voluntary sector:

1. *Collectively initiate discussions with the Division and MAC in regard to opportunities for linking level of funding to the achievement of performance results.*

COMMENTS FROM THE DIVISION

Response to 2.3 A - *The Division recognizes that a more consistent, formal approach could result in the grants recipients having improved access to information which will enable them to make more effective funding applications.*

Divisional staff participate in numerous training sessions as part of regularly scheduled conferences and meetings with grant recipients to assist them in the application process. Given the diversity of the client group and their locations throughout the province it would be impractical to offer a centralized, annual group session.

Many of the Division's clients are assessed through application based programs which contain funding formulas that clearly identify the rationale for funding levels. The Division agrees that written feedback regarding funding and performance would be of assistance to recipients.

The Division is limited in its ability to create funding incentives based on available resources. Many of the programs have caps on the funding level and once achieved, the grant recipient cannot anticipate higher levels of support. However, in programs such as the Community Arts Councils, the formula does increase for those organizations which expand their services, up to the maximum grant allowed.

COMMENTS FROM MAC OFFICIALS

1. *Council agrees with the importance of written clarification to grant recipients regarding the type of information it seeks and its use of that information. Council currently obtains financial information to report on a grant recipient's fiscal accountability and stability. Financial information is provided to and collected from grant recipients who are told that this information is used by an assessment panel as part of the assessment of their overall application.*

2. *Council agrees that grant recipients/applicants should have the opportunity to attend a session that provides a briefing on the type of information being sought from them and why. To date, Book Publishers have been provided with a workshop on what information Council requires, why, and how it is used. A similar workshop is planned for the Visual Arts Organizations that Council currently funds.*

3. *Council supports the principle of providing grant recipients with explanations in writing about the reasons for the level of funding awarded to them. Currently, feedback is generally not provided to organizations (other than basic information about the quality of the application) based on the confidentiality of the Peer Assessment process. However, Book Publishers are provided with feedback given the funding is formula based. More recently, in the development of policy, Council is planning to provide direct feedback in order to establish qualitative and quantitative performance measurement data that results in improved performance. This is particularly true in the development of policy around the funding of major performing arts organizations.*

4. *Council supports the concept of rewarding success (i.e., improvements in performance). As part of the consultation process in the development of funding policies for arts organizations, Council heard from recipients that a model that supports rewards for improved performance would be welcomed. Currently, there is no such policy in place. Council plans to explore the feasibility of this in light of the program budget requirements and meeting basic funding requirements of the 46 organizations to whom it currently provides operating funding.*

2.4 APPROPRIATE PERFORMANCE INFORMATION IN PERFORMANCE REPORTS

Key Question:

Are voluntary sector grant recipients who receive public funding reporting appropriate performance information to the public through their annual reports?

Principle:

A grant recipient should prepare appropriate public performance reports.

Ultimately, performance information is appropriate if it enables a reader to determine the value that an organization adds through the results it achieves. As such, performance information should communicate public benefits. To enable those outside an organization to understand and form opinions about the results achieved by an organization, the content and quality of performance information must demonstrate certain characteristics. CCAF, a national, non-profit research and education foundation which researches public sector accountability, management and audit issues, developed a set of nine Performance Reporting Principles through extensive consultation with legislators, managers and auditors (**Figure 5**). We used the CCAF Performance Reporting Principles as the basis for the criteria (**Appendix C**) for the review of individual annual reports prepared by organizations in the sample.

Findings From Review Of Annual Reports Prepared By Division And MAC Grant Recipients

- Findings are based on a review of 13 annual reports of grant recipients in our sample of 17 organizations (some do not prepare annual reports).
- The state of performance reporting among those who receive grants from the Division and MAC is the same and therefore findings presented in **Figure 6** apply to both groups. **Figure 6** demonstrates that there are many aspects of the CCAF Principles of Performance Reporting and our criteria that need to be incorporated into annual reports. However, the reader is cautioned not to draw conclusions on the state of strategic/business planning based on the state of performance reporting. The scope of our review did not include an assessment of the quality of strategic/business plans. As noted earlier, as of 2002/03, 12 of the 17 organizations in the sample had a strategic/business plan while four were in the process of developing one.

FIGURE 5

CCAF Principles of Reporting

1. Focus on the Few Critical Aspects of Performance
- focus selectively and meaningfully on a small number of things;
- centre on core objectives and commitments.

2. Look Forward As Well As Back
- set out the goals and how activities contribute to the goals;
- track achievements against expectations.

3. Explain Key Risk Considerations
- identify the key risks;
- explain the influence of risk on choices and directions and relate achievements to levels of risk accepted.

4. Explain Key Capacity Considerations
- discuss capacity factors that affect the ability to meet expectations;
- describe plans to align expectations and capacity.

5. Explain Other Factors Critical To Performance
- explain general factors such as changes in the economic, social or demographic environment that affect results;
- discuss specific factors such as standards of conduct, ethics, and values, or performance of other organizations that influence performance;
- describe unintended impacts of activities.

6. Integrate Financial and Non-Financial Information
- explain the link between activities and desired results;
- show spending on key strategies and explain how changes in spending affect results.

7. Provide Comparative Information
- provide comparative information about past performance and about the performance of similar organizations when relevant, reliable and consistent information is reasonably available.

8. Present Credible Information Fairly
- present information that is relevant and accurate in a manner that is understandable;
- explain management's involvement, judgment, and basis for interpretation of performance.

9. Disclose the Basis for Reporting
- explain the basis for selecting the few critical aspects of performance on which to focus;
- describe changes in the way performance is measured or presented;
- set out the basis on which those responsible for the report hold confidence in the reliability of the information being reported.

FIGURE 6

Performance Reporting in Annual Reports

Criteria: Public reporting by grant recipients should enable readers to draw conclusions on the value and contribution that an organization is making through its operations.

CCAF Principles of Reporting	Sub-Criteria on Performance Information	Highlights from Findings in Relation to Each Attribute
Focus on the few critical aspects of performance.	**EXPECTED RESULTS** Performance Information should identify: • The results that an entity intends to achieve (its goals or outcomes). • How expected results relate to the vision, mission and mandate of the entity. • How expected results relate to government's goals and priorities.	• Out of 13 annual reports reviewed: 4 state their mission; 3 state their mandate; 1 states objectives; 1 identifies priorities; and 1 identified goals. • Reports do not link vision, mission, mandate to the organization's expected results or to government's goals and priorities.
Explain key risk considerations. Explain key capacity considerations. Explain other factors critical to performance.	**CRITICAL SUCCESS FACTORS AND STRATEGIES** Performance Information should identify: • Activities to achieve expected results and actions to mitigate potential impact of factors that could impact results. • A description of the operating environment. • Internal and external factors that could impact on the achievement of results (risks).	• Annual reports do not provide a description of the operating environment. • Program activities listed are not linked to expected results. • 3 out of 13 annual reports identified factors that affect their ability to undertake programs. However, reports do not identify actions to be taken to address these factors.
Look forward as well as back. Integrate financial and non-financial information.	**ACTUAL RESULTS** Performance Information should identify: • Actual achievements as outputs and outcomes. • The link between results, activities and costs. • Variances between actual and intended results with explanations of these variances. • The extent to which achievements can be attributed to the activities of an entity.	• Annual reports list activities and outputs for the year. • Outcomes are not presented. • Reports do not link results, activities and costs. • Variances are not reported. • Attribution is not discussed.
Look forward as well as back.	**FUTURE DIRECTIONS** Performance Information should identify: • Activities to address the gap between actual and expected results. • Future desired directions. • Internal and external factors that could impact on the achievement of future desired directions. • Actions to mitigate any constraints identified.	• Annual reports do not address the gap between actual and expected results. • 1 out of 13 annual reports identifies a goal the organization has for the next 3 years. • 1 out of 13 annual reports identifies actions commenced in 2003/04 that will continue to be a priority in 2004/05. • Annual reports do not identify factors that could impact the achievement of future results to be taken to address factors that could adversely impact achievement of results in future.

DEFINITIONS OF FREQUENTLY USED TERMS IN THIS REPORT

Performance

How well an organization, policy, program or initiative is achieving its planned, intended results measured against targets, standards or criteria.

Activities

Operation or work processes internal to an organization that lead to certain outputs and ultimately, outcomes. Examples of activities are: launching an exhibition, conducting enforcement work, negotiating agreements, drafting legislation, developing policies/programs, conducting training programs, staging a performance.

Outputs

Products or services resulting from the activities of an organization, policy program or initiative. Examples of outputs are: number of exhibits/ performances, reports produced, grants given, number of people who received training.

FIGURE 6 (CONT'D.)

Performance Reporting in Annual Reports

Criteria: Public reporting by grant recipients should enable readers to draw conclusions on the value and contribution that an organization is making through its operations.

CCAF Principles of Reporting	Sub-Criteria on Performance Information	Highlights from Findings in Relation to Each Attribute
Present credible information fairly.	**UNDERSTANDABLE** Performance Information should: • Use language and a style that is simple, free of jargon and concise. • Use charts, graphs and other visuals in a way that makes a meaningful contribution to explaining performance. • Have a logical flow.	• While language in annual reports is generally clear and free of jargon, reports are too concise, thereby making it difficult for the reader to make the connection between different sections of the report and to gain an understanding of how programs and activities relate to the bigger picture of the organization's expected results. This impacts logical flow of reports. • While a few annual reports include photographs, annual reports do not use charts, graphs, etc., as a way to communicate outputs and outcomes.
Present credible information fairly. Disclose the basis for reporting.	**RELEVANT** Performance Information should: • Relate to expected results, especially outcomes. • Explain the basis for selecting those aspects that are the focus of reporting.	• 1 annual report attempted to relate accomplishments for the year to the organization's objectives. • Cannot determine if annual reports focus on what is relevant since information is presented outside the context of expected results.
Present credible information fairly. Disclose the basis for reporting.	**RELIABLE** Performance Information should: • Identify data sources. • Explain data limitations. • Describe changes in the way performance is measured or presented. • Identify future plans to improve data quality.	• Annual reports presented no evidence on reliability.
Provide comparative information.	**COMPLETE AND BALANCED INFORMATION** Performance Information should: • Report on successes and shortcomings. • Report against a balanced set of performance measures. • Provide performance data over several years. • Compare performance to other similar entities.	• Annual reports presented no evidence of completeness and balance in reporting.

DEFINITIONS OF FREQUENTLY USED TERMS IN THIS REPORT

Outcomes

A significant consequence attributed to the outputs of an organization, policy, program or initiative. Outcomes may relate to a change in behaviour, skills, knowledge, attitudes, values, conditions, status or other attributes. Outcomes may be described as immediate, intermediate or long-term, direct or indirect, intended or unintended. For example, a grant program to foster the talent of Manitoba authors could have the following immediate, intermediate and long-term outcomes:

Immediate Outcome:
- increased publication of Manitoba authors.

Intermediate Outcome:
- increased popularity of Manitoba authors.

Long-Term Outcome:
- national and international recognition of Manitoba authors.

Results

Outputs and outcomes together constitute results.

Conclusion

While there are some elements that reflect the principles of apropriate performance reporting in annual reports we reviewed from grant recipients in our sample, generally there is a significant opportunity to develop them into documents that would constitute appropriate performance reporting.

Recommendations

A. For the Division and MAC

That the Division and MAC:

1. *Use the December 2002 report of the Office of the Auditor General entitled, Performance Reporting in Annual Reports: Current Practices Among Crown Entities (www.oag.mb.ca) as the basis for developing annual report guidelines that are tailored to the context of the voluntary sector grant recipients for their use in reporting to the Division, MAC, and the public.*

2. *Ensure that there is capacity-building support through the Division and MAC or another organization to assist grant recipients to prepare performance reports that are consistent with the attributes of effective reporting outlined in the December 2002 Auditor General's Report to the Legislature.*

COMMENTS FROM THE DIVISION

Response to 2.4 A - *Given the diversity and administrative capacity of the grants recipients, the Division will endeavour to provide information on annual reports to each of its clients groups that are appropriate to the development of the organization. The Division will ensure that the clients are made aware of resource material such as the December 2002 report of the Office of the Auditor General entitled, Performance Reporting in Annual Reports: Current Practices Among Crown Entities.*

The Division will explore options for capacity-building support to assist grant recipients to prepare performance reports and could perhaps hold information sessions as part of regularly scheduled conferences and meetings. The Division will do as much as it can to ensure that grant recipients are aware of the import of effective reporting.

COMMENTS FROM MAC OFFICIALS

1. *Council agrees with the suggestion to incorporate performance reporting as outlined in the 2002 OAG report entitled, "Performance Reporting in Annual Reports: Current Practices Among Crown Entities". Council is currently engaged in a 4-year process to review and develop its major funding policies, including general funding policies, aboriginal arts funding policies, and funding policies for organizations and individual artists. Also included is a separate policy for Major Performing Arts Organizations that will be the first policy to detail*

expanded reporting requirements for those organizations that qualify for funding. This includes establishing clear outputs and outcomes for these organizations within the terms of a funding agreement as well as how they intend to measure and report on the results. These agreements will take into account the recipient's annual reports and how to work with them to progressively develop them into documents that better reflect the concepts behind performance reporting as outlined in the report of the Auditor General entitled, "Performance Reporting in Annual Reports: Current Practices Among Crown Entities".

2. *Council supports the concept of capacity-building support to assist grant recipients to prepare performance reports. Currently, there are no available budgets to fund such an initiative. As mentioned above, Council plans to develop funding agreements that establish clear outputs and outcomes a grant recipient undertakes to achieve and how they intend to measure and report on the results.*

2.5 PERSPECTIVES OF GRANT RECIPIENTS ON PERFORMANCE REPORTING

Key Question:

From the perspective of voluntary sector grant recipients, what do they consider to be relevant performance reporting?

Principle:

Grant recipients should provide the public with relevant performance information.

In order to be relevant performance information needs to communicate to the public about outputs and outcomes that have been achieved as a consequence of an organization's activities and strategies. Where performance information focuses on activities and strategies, it does not provide a reader with the ability to understand the big picture of an organization's contribution or impact - i.e., it makes it difficult to appreciate the relevance of an organization. Relevant performance information connects an organization's mission, mandate and goals to its results. Another way of expressing the principle of relevancy is to say that performance information should enable the reader to form conclusions about how the organization is performing relative to its stated expected results.

Perspectives from Division Grant Recipients on Appropriate Reporting

The observations below are presented in relation to the review criteria detailed in **Appendix C**.

- When asked if in their opinion there was any point to reporting on performance to the funder and the community at large, all interviewees said it was important to report on their performance for reasons of accountability and transparency. Several of those interviewed went

further suggesting that reporting on performance gives them an opportunity to demonstrate their achievements and their contribution to community life.

- Many of those interviewed pointed out that they currently report on their performance through a variety of means. To the funder it is through progress reporting and year end reporting including a financial/audited financial statement. To their members, they cited the following range of approaches: an annual general meeting which is open to the public; information brochures on their organization; a website; a newsletter; and ads in the newspaper about upcoming events.
- When asked about what would constitute relevant performance reporting to funders and the community at large, generally interviewees made a distinction between the type of information that is appropriate for each. The main distinction relates to level of detail that they perceive each would want and the forms of communicating the information. In relation to performance information for the funder, those interviewed believe it is important to report on how money was actually spent relative to the projected expenditures and demonstrating whether all the planned activities were implemented and if not then providing explanations. As well, in several instances, interviewees noted the importance of communicating to the funder on the organization's operating context - what it took to be able to deliver the service and program commitments for the year and the issues that the organization faces.
- Several of those interviewed stressed the fact that the annual report should not be the only way of reporting to the funder. From their point of view, appropriate performance reporting should also include on-going communication throughout the year to flag any unexpected events or problems that may arise. In that regard, interviewees noted that Departmental staff are always available to them when they needed to discuss any matter. For one interviewee, appropriate performance reporting also encompassed offering the Department an opportunity to participate in their organization's strategic planning so the Department would have a sense of the proposed goals and broad direction of the organization and could express any concerns it might have as a funder.
- While recognizing the importance of reporting on outcomes, several interviewees expressed concern about the possibility of being required in future to report on outcomes through more quantitative measures. Reasons for concern revolve around: lack of resources; difficulties in finding suitable quantitative measures in the arts, historic resources and recreation sector; outcomes often take years to manifest; and the difficulty in knowing which impacts one can take credit for since there are often external factors that also influence outcomes.
- With respect to reporting to the community at large interviewees generally believe that the public would not want to read lengthy reports and is essentially interested in the activities of the

organization. The point was also made that a variety of mediums should be used to communicate to the community on performance such as – annual meetings, workshops, advertising, websites, pamphlets on services and programs, and so forth.

- A very small number of those interviewed suggested that due to limited resources they could not be expected to try to reach the wider community to report to them on their performance. They felt is would be more appropriate for the Department to fulfill this role as part of its own accountability to the public on the grants that it provides. Currently the Department's annual report indicates funding allocations for each program and for grants at an aggregated level; it does not provide a general listing of grant recipients, the amount of funding they each received and the key results achieved by them through the provincial allocation.

Conclusion

While interviewees believe it is important to be accountable for the funding they receive, their perspective on what constitutes relevant performance information tends to focus more on accounting for funding by itemizing activities and strategies undertaken rather than outcomes achieved.

Perspectives from MAC Grant Recipients on Appropriate Reporting

- When asked if in their opinion there was any point to reporting on performance to the funder and the community at large, all interviewees said it was important to report on their performance for reasons of accountability and transparency.
- When asked about what would constitute relevant performance reporting to funders and the community at large, generally interviewees made a distinction between the type of information that is appropriate for each. Their view is that funders should receive information on their: organization's activities in relation to its mandate and goals; and financial viability. By contrast, interviewees felt that the focus of reporting to the community at large should be on publicizing the artistic contribution of their organization. The last point was stressed by interviewees most of whom felt that the best way to demonstrate their effectiveness and contribution to the community is not so much through an annual report, but ultimately through the products and services they deliver – i.e., attending actual performances, art exhibits, reading publications, etc. In fact one interviewee observed that it should be MAC as opposed to individual grant recipients who should, through its annual report let the community know what grant recipients are achieving with MAC's funding.
- One interviewee observed that it would be helpful if MAC synthesized all the information it receives from arts and culture grant recipients into an overview on trends and practices in the sector. Sectoral trends were

viewed as helpful to individual organizations, providing them with benchmarking information to assist them in their future planning. Thus it was felt that MAC has an untapped important "reporting" role to play in relation to grant recipients.

- One interviewee expressed concern about how one engages in valid and fair performance measurement in the arts noting that quantification of a highly qualitative field is a real challenge.

Conclusion

While interviewees believe it is important to be accountable for the funding they receive, their perspective on what constitutes relevant performance information tends to focus more on accounting for funding by itemizing activities and strategies undertaken rather than outcomes achieved.

Recommendations

A. For the Division and MAC

That the Division and MAC:

1. *Modify their annual report to identify individual grant recipients, the allocation they received, and the Division/Provincial and MAC outcomes achieved by funding these voluntary sector organizations.*
2. *Use the data they receive from grant recipients as the basis for periodically preparing sectoral trends data in a document that is available to voluntary sector organizations and others who may want it.*

B. For the Voluntary Sector

That the voluntary sector:

1. *Collectively initiate discussions with the Division and MAC with respect to the development of a common set of public reporting guidelines that are suitable for the sector's context and consistent with the Auditor General's December 2002 Report entitled, Performance Reporting in Annual Reports: Current Practices Among Crown Entities (www.oag.mb.ca).*

COMMENTS FROM THE DIVISION

Response to 2.5 A - *All grants provided by the Division are listed in Public Accounts and are considered to be public information. The Division may consider amending its annual report to include the list of grants paid, or it may pursue placing the annual list of grants paid on the departmental website which would be more readily accessible.*

The Division agrees that a periodic sectoral trends review would be an asset to grant recipients. The Division endeavours to stay abreast of trends by monitoring the reports of Statistics Canada reviews, the Council for Business and the Arts, the Canadian Conference of the Arts, the Canada Council for the Arts, the Interprovincial Sport and Recreation

Council and other agencies dedicated to the collection of research and analysis of the voluntary sector. Much of this information is available to the client groups through the Internet or in public libraries.

COMMENTS FROM MAC OFFICIALS

1. *Council agrees to the ongoing modification of its annual report to reflect outcomes achieved by its grant recipients. The Manitoba Arts Council continues to modify its annual report and website as part of its overall communication strategy that incorporates the principles of transparency and stewardship. Both the annual report and the website identify grant recipients and the grant allocation received. The annual report also provides a small sample from over 200 testimonials from artists (which builds on the achievements of individual artists as a result of receiving funding from the Council), funding facts, funding partnerships, retrospective data and achievements against Council's goals: encourage artistic excellence, promote the arts, support cultural diversity, and increase arts education.*

2. *Council agrees that data it receives from grant recipients should be reflected in periodic sectoral trends documents available to the voluntary sector organizations and others. Currently, information is presented in Council's annual report and website. Council plans to annually and progressively build upon the reporting recommendations as suggested by the Auditor General. Council has been involved in a project for the past 3 years to ensure that the financial data it collects from its grant recipients is complete, accurate and comparable across organizations and disciplines. As Council enters the fourth year of this project, more information is available to be incorporated in the annual report and website, sharing information with the arts community about performances, audiences, personnel, revenues and expenditures.*

Closing Word From The Auditor General – Moving Forward On The Recommendations

I believe it is important to begin measuring performance even if the performance measurement system in place does not reflect all the features of best practices from the outset. I advocate an incremental approach, according to a coherent plan that an organization puts together regarding its strategy for gradual implementation of a fully effective performance measurement system. On that basis, let me share with you some of the typical objections I hear with respect to performance measurement and my proposed approach to getting started.

1. **Cost**

   One of the objections to performance measurement is that it costs too much money and takes up already scarce staff time. Here I would suggest that performance measurement should initially focus on measuring what is most relevant to tracking how well an organization is achieving its purpose. Performance measurement can evolve incrementally and be refined as capacity to handle it increases. One particular area of cost that is often cited as a concern is the cost of surveying clients or stakeholders. This can be accomplished if it is at intervals of every few years instead of annually, limiting the survey to a few key questions, compromising on the sample size, and budgeting well in advance for the undertaking.

2. **Attribution for Outcomes**

   Another concern is that since there may be more than one player in a given field, attribution of impacts is difficult and thus a single entity's contribution to outcomes is almost impossible to determine. While this is almost certainly always the case, nevertheless, it is possible to obtain some sense of a given organization's contribution to a particular outcome. At the very least, organizations can have a sense of how large or small a player they are within a particular sphere and based on that they can draw some conclusions about the impact of their services and programs towards overall results. As well, organizations need to acknowledge the role of others and the collective contribution that brings about impacts or outcomes. I would suggest therefore that attempting to measure what is exclusively and uniquely the impact of a single organization without reference to the role of others is virtually impossible and will likely yield misleading impressions.

3. **Duration for Outcomes to Manifest**

   Here the argument is that one cannot meaningfully measure outcomes because they take several years to manifest. Again this perspective emanates from an all or nothing approach to performance measurement. Obviously, one cannot always see the impact of outcomes from year to year and it may not even be feasible or meaningful to report on

outcomes annually. But here we are talking about long term outcomes. There are immediate outcomes and intermediate level outcomes that can in the short term be the basis of measurement.

A Practical Approach to Getting Started

Thus, an all or nothing attitude gets in the way of getting started. My aim is to encourage meaningful performance measurement and reporting. Our Office achieves this by identifying what can and should be happening in this field within the public sector and by recipients of public funds. Through reports such as this my intent is to highlight what is currently taking place, and where the gap exists between actual practice and those practices we are promoting.

It is also my hope that this report fosters a dialogue between the voluntary sector generally and government funders with respect to the two working together to further the activities of performance measurement and reporting. Within this context it is important to bear in mind that an incremental approach to implementing best practices can be phased in according to a clear plan in order to accommodate resource and capacity considerations.

Response from Government

We strongly support a collaborative effort between our Department of Culture, Heritage and Tourism, the Manitoba Arts Council and grant recipients to establish best practices in this area. Learning from each other, and establishing a common framework and objectives, is clearly an undertaking which will benefit Manitobans in general and especially those involved in cultural programs. The recommendations made in the report will be useful to all concerned in developing a coordinated process with reasonable expectations and desirable outcomes. We will be monitoring progress in that regard.

Appendix A

GRANT RECIPIENTS FUNDED BY THE DEPARTMENT OF CULTURE, HERITAGE AND TOURISM INCLUDED IN THE REVIEW[11]

Arts, Culture and Recreation Organization	Purpose of Grant	Method of Determining Level of Grant	2002/03 Grant ($000s)	Program
Winnipeg Symphony Orchestra	To provide additional operating support. Grant is 2.1% of budget.	Internal review process	125.0	Cultural Organizations Grant Assistance
Manitoba Museum	To acquire and exhibit museum artifacts and operate a facility. Grant is 56% of expenditures.	Internal review process	2,615.9	Cultural Organizations Grant Assistance
WinnipegArt Gallery	To operate cultural facility. Grant is 41% of budget.	Internal review process	2,043.0	Cultural Organizations Grant Assistance
Manitoba Children's Museum	To provide operating, programming and administrative support. Grant is 17.4% of budget.	Internal review process	67.0	Arts Grant Assistance
Manitoba Motion Picture Industry Association	To support the Association. Grant is 40% of budget.	Formula based	50.0	Arts Grant Assistance
Manitoba Agricultural Museum	To support programming. Grant is 37% of budget.	Internal review process	129.7	Special Theme Museums
Manitoba Historical Society	To encourage research and publication relating to Manitoba's history and to encourage public interest in Manitoba's and Canada's history. Grant is 10% of budget.	Internal review process	25.2	Provincial Heritage Agencies
St. Boniface Historical Society	To support Western Canada's francophone heritage particularly Manitoba's through product acquisition, preservation and promotion. Grant is 29% of budget.	Internal review process	74.0	Provincial Heritage Agencies
Manitoba Camping Association	To assist economically disadvantaged youth to participate in a camping experience. Grant is 16.5% of budget.	Internal review process	10.6	Recreation and Wellness Grant Assistance
Manitoba Fitness Council	To assist with the cost of training, education and monitoring of fitness leadership standards. Grant is 34.3% of budget.	Internal review process	56.5	Recreation and Wellness Grant Assistance
Volunteer Centre of Winnipeg	To assist with operating and program delivery in support of the voluntary sector. Grant is 3.8% of budget. Also receives $35,000 from the Department in support of the Manitoba Voluntary Sector Initiative.	Internal review process	45.0	Recreation and Wellness Grant Assistance
Winnipeg Boys and Girls Club Inc.	To support prevention and intervention. Grant is 24.5% of budget.	Internal review process	324.1	Recreation and Wellness Grant Assistance

[11] Grant figures come from the 2002/03 Estimates of the Department of Culture, Heritage and Tourism.

Appendix B

GRANT RECIPIENTS FUNDED BY THE MANITOBA ARTS COUNCIL INCLUDED IN THE REVIEW[12]

Arts, Culture and Recreation Organization	Purpose of Grant	Method of Determining Level of Grant	2002/03 Grant ($000s)	Program
Winnipeg Contemporary Dancers	Annual funding. Grant is 23% of budget.	Level of funding based on an evaluation of the following aspects of applications: - Demonstrated artistic quality and contribution to the art form; - Effective organizational and financial management; - Level of public support; - Ability to achieve the stated goals and objectives.	94.5	Grants to Organizations
Manitoba Theatre Centre	Operating funding. Grant is 12% of budget.	Multi-year three year funding based on an evaluation against the following weighted criteria: Artistic - Artistic quality and interest of the work (20%); - Relevance of company's programming to its artistic mission, audience and the vitality of its artistic direction (20%); - Commitment and contribution to the production and/or development of Manitoban/Canadian works (10%); - Commitment and contribution to the development of Manitoban Theatre Artists (10%). Dissemination - Impact of the organization and its work on the public and on Manitoban/Canadian Theatre (15%). Administrative - How the administrative infrastructure of an organization supports and strengthens its artistic mission (25%).	562.0	Grants to Organizations
Border Crossings (arts periodical)	Operating funding. Grant is 21% of budget.	Level of funding based on an evaluation of the following aspects of applications: - Demonstrated artistic quality and contribution to the art form; - Effective organizational and financial management; - Level of public support; - Ability to achieve the stated goals and objectives.	94.3	Grants to Organizations
Manitoba Chamber Orchestra	Operating funding. Grant is 19% of budget.	Level of funding based on an evaluation of the following aspects of applications: - Demonstrated artistic quality and contribution to the art form; - Effective organizational and financial management; - Level of public support; - Ability to achieve the stated goals and objectives.	96.5	Grants to Organizations
Plug In Institute of Contemporary Art	Annual grant. Grant is 37% of budget.	Level of funding based on an evaluation of the following aspects of applications: - Demonstrated artistic merit; - The strategic/annual plan.	128.0	Grants to Organizations

[12] Grant figures come from the 2002/03 Annual Report of the Manitoba Arts Council.

CRITERIA FOR THE REVIEW

Appendix C

Principle	Criteria	Sub-Criteria
CLEAR AND APPROPRIATE PERFORMANCE EXPECTATIONS FROM A FUNDER A funder places clear and appropriate expectations on a grant recipient regarding their performance outputs and outcomes. (**Relates to Section 2.1 of Report**)	A grant recipient should understand the performance expectations that the funder has of them.	A funder's expectations are clear and appropriate if they include: *Setting and Communicating Funder's Goals* 1. Identification in writing of a funder's program goals, objectives and performance targets. *Strategic/Business Plan* 2. A requirement that a grant recipient has a strategic/business plan that is consistent with best practices. *Performance Level* 3. Mutual agreement between a funder and a grant recipient on a set of clear outputs and outcomes that a grant recipient undertakes to achieve within a defined time frame. *Performance Measurement* 4. Appropriate performance measures that will be used to report on progress in achieving a funder's expected outputs and outcomes as well as a grant recipient's planned outputs and outcomes. *Reporting on Actual versus Planned Results* 5. A requirement that performance reports to a funder provide explanations for variances between expected and actual results. *Audited Financial Statement* 6. A requirement for a grant recipient to submit to a funder audited financial statements. *Setting Time Frames for Reporting* 7. Dates by which a grant recipient is to report to a funder. *Continuous Improvement Goals* 8. Provisions for a funder to meet at least annually with the organization to discuss and agree upon steps that may need to be taken in light of the performance reports (continuous improvement). *Establishing Guidelines* 9. Guidelines that provide direction and clarity on the expectations of a funder.

DEFINITIONS OF FREQUENTLY USED TERMS IN THIS REPORT

Performance
How well an organization, policy, program or initiative is achieving its planned, intended results measured against targets, standards or criteria.

Activities
Operation or work processes internal to an organization that lead to certain outputs and ultimately, outcomes. Examples of activities are: launching an exhibition, conducting enforcement work, negotiating agreements, drafting legislation, developing policies/programs, conducting training programs, staging a performance.

Output
Products or services resulting from the activities of an organization, policy program or initiative. Examples of outputs are: number of exhibits/performances, reports produced, grants given, number of people who received training.

Appendix C
(cont'd.)

CRITERIA FOR THE REVIEW

DEFINITIONS OF FREQUENTLY USED TERMS IN THIS REPORT

Outcome
A significant consequence attributed to the outputs of an organization, policy, program or initiative. Outcomes may relate to a change in behaviour, skills, knowledge, attitudes, values, conditions, status or other attributes. Outcomes may be described as immediate, intermediate or long-term, direct or indirect, intended or unintended. For example, a grant program to foster the talent of Manitoba authors could have the following immediate, intermediate and long-term outcomes:

Immediate Outcome:
- increased publication of Manitoba authors.

Intermediate Outcome:
- increased popularity of Manitoba authors.

Long-Term Outcome:
- national and international recognition of Manitoba authors.

Results

Outputs and outcomes together constitute results.

Principle	Criteria	Sub-Criteria
RELEVANT PERFORMANCE INFORMATION IS REQUIRED BY A FUNDER The performance information that a funder expects a grant recipient to submit is relevant. (**Relates to Section 2.2 of Report**)	A grant recipient should perceive as relevant the performance information requirements that a funder expects them to submit.	Performance information is relevant if it: *Relates to Funder's Goals* 1. Demonstrates through quantitative and qualitative performance measurement data that a grant recipient is contributing to the achievement of a funder's expected outputs and outcomes. *Relates to Grant Recipient's Purpose* 2. Demonstrates through quantitative and qualitative performance measurement data how a grant recipient is meeting their mission, vision, and mandate. *Demonstrates Organizational Performance* 3. Demonstrates through quantitative and qualitative performance measurement data that a grant recipient is carrying out their purpose effectively, efficiently and economically. *Consistent with Grant Recipient's Data Collection Needs* 4. Is consistent with the type of performance information that a grant recipient collects for their own internal monitoring and management.
APPROPRIATE USE OF PERFORMANCE INFORMATION Performance information requested by a funder of the grant recipient is being used in decision-making by the funder. (**Relates to Section 2.3 of Report**)	A grant recipient should be aware of how the performance information they provide is used by a funder.	Appropriate uses of performance information by a funder include using it for: 1. decisions regarding changes to any aspect of a grant program; 2. decisions regarding changes to expectations placed on a grant recipient; 3. decisions on changes to a future funding agreement with a grant recipient; 4. discussions between a funder and a grant recipient regarding performance attained by the grant recipient; 5. decisions regarding a change to the level of future funding to a grant recipient; and 6. substantiating recommendations/decisions to continue to fund a grant recipient.
APPROPRIATE PUBLIC REPORTING Public reporting provides appropriate performance information on the results achieved and future directions to address shortcomings. (**Relates to Sections 2.4 and 2.5 of Report**)	Public reporting by grant recipients should enable readers to draw conclusions on the value and contribution that an organization is making through its operations.	An appropriate performance report should identify the following: 1. Expected results; 2. Critical success factors and strategies for achieving those results; 3. Actual results; and 4. Future directions. A performance report should present information that is: 1. Understandable; 2. Relevant; 3. Reliable; and 4. Complete and balanced. Refer also to **Figure 6** for details on each sub-criteria.

ENHANCING BOARD GOVERNANCE IN NOT-FOR-PROFIT ORGANIZATIONS

As Auditor General of Manitoba, I have focused on engaging Manitobans in a dialogue on enhancing board governance in various public sector organizations. Given the interest and ongoing discussion generated, I am convinced the citizens of Manitoba are keenly aware of and concerned about issues of governance.

Our audits of the past several years have highlighted that poor governance practices are most often the root cause of the fiscal and organizational problems we encounter. Our findings have made it increasingly apparent that effective governance is a key component of ensuring that public organizations are well run, avoid inappropriate risks, operate within their legislative mandate, and provide services to the citizens of Manitoba in an efficient and effective manner.

Manitobans are also served by the numerous not-for-profit organizations who provide a variety of services to our community, in areas as varied as recreation, religion, social services, and the arts. These voluntary sector organizations are important contributors to the wellbeing of our communities and to enhancing our quality of life. Significant levels of public funding are provided annually to not-for-profit organizations to support their services. Enhancing the board governance practices and accountability mechanisms of these organizations is therefore clearly in the public interest. It is also in the interests of the many Manitobans who agree to serve their fellow citizens by generously volunteering their time and expertise to act on the boards of these organizations.

Consistent with our findings in the public sector, current research of Canadian not-for-profit organizations has also highlighted that "where problems of organizational governance exist in the sector, they are due largely to the nature of volunteer boards, who often have limited time to devote to the task, are poorly informed about the nature of their responsibilities... and do not have access to the right tools to improve their own performance. Such problems are compounded if, due to the pressure of rising demands for services and shrinking resources, an organization is so consumed with daily tasks that there is little opportunity to stand back to evaluate and overhaul the structures and processes of governance" (Broadbent Report, p.22).

This report is intended to assist not-for-profit organizations in "standing back" to focus on their board governance practices and adopt leading practices in order to ensure that the citizens of our province are well served by the voluntary sector. The impetus for this report came from a request by the board of the Royal Winnipeg Ballet to assist in enhancing their board practices. We recognized that the challenges faced by this board and their quest for effective governance and enhanced accountability are typical issues faced by all not-for-profit organizations, no matter how large or small. We thank the board of the Royal Winnipeg Ballet for their participation in this project and for agreeing to act as the example which informs this discussion of board governance practices in the voluntary sector. Their thoughtful insights reveal a strong commitment to enhancing the effectiveness of their board governance practices.

Jon W. Singleton, CA•CISA

Introduction

Voluntary not-for-profit organizations in Manitoba contribute to the strong social fabric of our community, providing services ranging from recreational sports leagues to supporting people in dealing with all manner of human issues. These not-for-profit organizations, which are largely self-governing, also contribute greatly to our province's economic health and prosperity. Given the significant levels of public funding that is directed towards the voluntary sector, ensuring effective governance and accountability mechanisms of these not-for-profit organizations is in the provincial interest.

This report is intended to provide general guidance and a discussion of leading practices in board governance for not-for-profit organizations who are seeking to enhance their governance practices. As a basis for this report, the Office of the Auditor General (OAG) utilized its Model of Governance to conduct a governance review of the Royal Winnipeg Ballet (RWB) at the request of their board. The board of the RWB has recently emerged from a period of transition, and recognized that it was an opportune time to review and enhance their governance practices. The generous participation of the RWB's board members and executive management throughout this process was greatly appreciated.

The OAG's Model of Governance discussed in this report provides common principles of effective governance and outlines a number of key attributes of an effective board. The observations noted regarding the practices of the RWB board are intended to highlight specific areas of board governance that present common challenges to most not-for-profit boards. We note that, in highlighting these observations, it is not our intention to imply that the RWB board is either not conducting, or not in the process of enhancing, a particular board function. Rather, these observations are noted to provide a discussion vehicle for leading practices in board governance that all not-for-profit boards in the voluntary sector can consider in enhancing their own board governance practices.

While there is no "one size fits all" solution for effective governance, it is hoped that this report will encourage all not-for-profit boards in Manitoba's voluntary sector to discuss and consider what leading practices in governance can be reasonably implemented to suit their own unique situation at a particular point in time.

Background Information

THE ROYAL WINNIPEG BALLET

The RWB is an important contributor to the cultural vitality and economic well-being of Winnipeg. Founded in 1939 by Gwenneth Lloyd and Betty Farrally, the RWB holds the double distinction of being Canada's premier ballet company and the largest continuously operating ballet company in North America. The RWB received its royal title in 1953 and has continued to garner both critical and audience acclaim through its versatility, technical excellence, and captivating style. The RWB currently has an annual budget of approximately $8 million, and is the largest arts organization in western Canada

The RWB presents more than 100 performances every season and the Company spends over 20 weeks a year on the road, performing both nationally and internationally in centres large and small. The RWB receives approximately 35% of its funding from government sources, including federal, provincial and City of Winnipeg grants. Provincial funding in the past year, through the Manitoba Arts Council and the Department of Culture, Heritage and Tourism, totalled approximately $1 million.

PURPOSE, SCOPE AND APPROACH

The OAG was requested by the RWB's Board of Directors to review their governance practices in order to assist the organization in adopting leading practices in board governance. Having recently emerged through a period of organizational change, the RWB board recognized that, as the organization entered into a period of stability, it was an opportune juncture to review and enhance the governance practices of the board itself. The review was conducted between November 2003 and January 2004.[1] Individual interviews were held with the RWB's board members including ex-officio members, as well as the RWB's senior executive partnership, composed of the Chief Operating Officer and Artistic Director. We note that this review was not an audit, and that no verification work was conducted of the RWB's board governance practices.

The following sections discuss particular attributes of effective not-for-profit governance and highlight key challenges faced by boards in the not-for-profit sector. We utilize observations noted from our review of the RWB board's governance practices, as the challenges faced by this board are common to many not-for-profit boards. In order to assist all not-for-profit boards, we provide a general discussion of opportunities to enhance governance practices and move towards adoption of leading practices in governance.

Attributes of Effective Governance

Corporate governance can be most simply defined as "the system by which an organization is directed and controlled".[2] Effective governance practices relate to how a governing body (most often, a board of directors) leads and oversees an organization. Regardless of whether the governing body is responsible for a private sector corporation, a public sector entity, or a not-for-profit voluntary organization, what each has in common is that a group of people have been elected or appointed to provide direction and control to an organization on behalf of others.

Governance is a process of transformation, with people working together in specified relationships to enable effective decision-making. With its focus on the responsibilities and actions of a governing body, effective governance involves:

- Setting Direction:
  - The aim toward which a board steers itself and its organization.

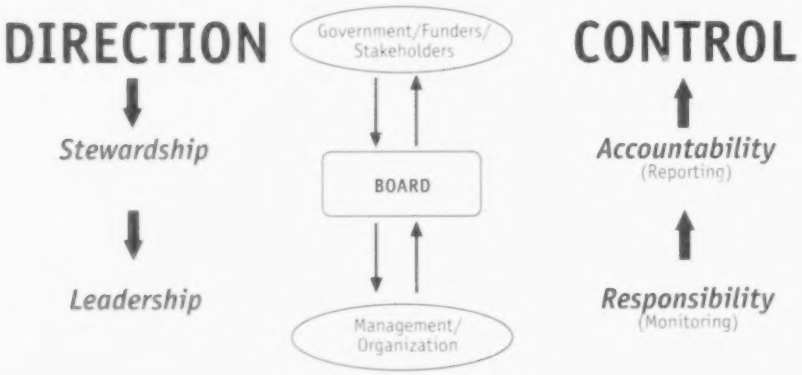
[1] Detailed findings from our review were provided to the RWB board and their executive management under separate attachment.

[2] London Stock Exchange, "*Report of the Committee on the Financial Aspects of Corporate Governance*" (Cadbury Report), 1992.

- **People Working Together**:
  - Board members exercising and expressing their attitudes, beliefs and value systems on matters pertaining to the mandate of the organization.
- **Structure and Processes**:
  - The formal means used to achieve the aim, and to direct and manage an organization's operations and activities.

A literature review of leading practices in board governance reveals a number of models and approaches for governance, all of which build upon the four pillars of good governance (Figure 1):

- **Stewardship** - As stewards, boards act for others, have authority over their organization, and are trustees of the organization's mandate as well as its resources. A board therefore has ultimate authority for its organization. As a result of this stewardship, a board needs to honour the trust that has been placed in it.
- **Leadership** – Governance fulfils a leadership function in society. As leaders, boards are expected to reflect the value system and priorities of the community from which they are drawn. Through the board, individuals accept the challenge to develop positive relationships, ensure respect between parties, and build a sense of belonging in the group.
- **Responsibility** – Having a fiduciary responsibility, boards are expected to manage the resources of the organization efficiently and effectively to accomplish the desired aim. Board members are expected to be reliable, and to allow appropriate factors and considerations to affect their judgement, including consideration of the effect of their decisions on others. They are also expected to devote the personal time and energy to ensure that governance is appropriate and adequate.
- **Accountability** - Boards are ultimately accountable for the actions of their organization. Accountability is the responsibility to answer for the discharge of responsibilities that affect others in important ways. It requires that boards understand who is responsible for what, what performance is to be achieved, and what information needs to be shared to ensure appropriate decision-making.



Source: Adapted from Brown Governance, Inc.

Within the four pillars of corporate governance, there is a core perspective on what it is that a board should do. Drawing on this, and based upon a review of leading research, perspectives and practices of board governance, we have identified a set of attributes that operationalize each of the four pillars. Incorporating both a structural and behavioural perspective to board governance, these attributes represent the attributes of an effective board (Figure 2). We believe that, in general, the more a board fulfils each of these attributes, the more effective it is.

Attributes of an Effective Board

The attributes contained within our Model are generally found in all governance frameworks, regardless of the type of board governance approach and specific practices adopted by a board. A recent case study review of not-for-profit organizations in Canada identified several models currently used by Canadian not-for-profit boards and "found that most boards use a hybrid of models created by applying practices drawn from two or more models."[3] The attributes of our Model have been tested in a number of public sector reviews, revealing a strong endorsement from governance practitioners that these attributes outline significant criteria for effective board governance.

[3] Institute on Governance; *Governance Do's and Don'ts - Final Report: Lessons from Case Studies on Twenty Canadian Non-Profits*, 2001. p.3.

The following sections discuss each attribute of our Model in detail. Key challenge areas faced by not-for-profit boards are outlined, utilizing our example of the RWB board, and discussion is provided highlighting leading practices that can be adopted to enhance effective governance.

ATTRIBUTE 1: Purpose and Accountability

The first attribute of our model encapsulates both aspects of the definition of corporate governance: direction (purpose) and control (accountability). Failures in governance most often occur because a board is not focussed on either one or the other of these two aspects. Given this, the activities examined under this attribute are arguably the most important to ensuring effective governance in an organization. The OAG's audits of governance failures in public sector organizations reveals that most governance failures result from breakdowns in internal control mechanisms, as well as the board's lack of involvement in strategic planning. Regardless of the governance approach selected by a board to organize its work (examples include the traditional board model and the trademarked Policy Governance approach[4]), the work of a board must deal with both purpose (direction) and accountability (control).

A shared purpose and aim is vital for effective board governance. By holding a purpose in common, a set of individuals coalesces into a group, a team → the board. Purpose is generally set forth in the mandate and mission of an organization. These formal goals, as articulated in mission statements, ends policies, or even prescribed mandates, are often vague and general in nature, and are clarified as they are discussed and put into practice. Therefore, debating the goals and identifying shared priorities are two of the key activities that enable a board to add meaning and clarity to the shared aim. Effective governance consequently requires significant time and attention be paid to organizational vision, mission, goals and priorities. This is often considered "the most important duty of a board [because] unless it fulfils this duty, a board will have no touchstone to determine the appropriateness of its actions, the performance of management or the success of the organization itself".[5]

Purpose is often expressed by boards through the articulation of a strategic plan which allows both board members and senior management to agree on the priorities which will enable the mandate and mission of the organization to be achieved.

[4] The Policy Governance approach (often referred to as the Carver Model) is a trademarked model for board governance that was developed by John Carver, initially in *Boards That Make A Difference*, Jossey-Bass, 2nd Edition, 1997.

[5] Final Report of the Panel on Accountability and Governance in the Voluntary Sector (Broadbent Report), *Building on Strength: Improving Governance and Accountability in Canada's Voluntary Sector*, February 1999, p.24.

Observations of RWB	Towards Leading Practices in Governance
Enhancement of RWB board's role and participation in the strategic planning process would be useful.	Strategic planning assists in ensuring alignment between board vision and management priorities. A board's involvement in setting strategic direction and articulating a strategic planning document is a key aspect of governance. A designated strategic planning session or board retreat is a commonly-used approach for boards to focus on strategic issues, and to work in conjunction with management in the development of a strategic plan. The final strategic and business plans should be approved by the board, who then hold management accountable for the plan's fulfilment.
Implementation of an overall risk management process is encouraged, as well as a process to monitor internal control mechanisms.	A board's contribution to risk management and to ensuring adequate internal control mechanisms exist is an important aspect of accountability and control over the organization. Identification and mitigation of external and internal risks is often a component of the strategic planning process. Leading practices also encourage boards to adopt a risk-based approach to establishing a sound system of internal control. The board is expected to deliberate on the extent and categories of risk that it regards as acceptable, the likelihood of risks materializing, the ability to reduce their incidence and impact, and the costs of controls versus benefits. Management implements board policies; identifies and evaluates risks; and operates and monitors the internal control system. Boards should also identify the scope and frequency of the reports it receives and reviews on these issues.[6] Oversight of internal control mechanisms and/or internal audit functions are sometimes delegated to the board's Audit Committee.

Associated with the right to act is the responsibility to be accountable for what is accomplished. Boards are responsible for the direction of the organization and are therefore accountable for what is accomplished. Accountability is the requirement to explain and accept responsibility for carrying out an assigned mandate in light of agreed upon expectations.[7] This situates a board as the ultimate authority for an organization. Effective governance requires a board to be clear on to whom it is accountable, and for

[6] Conference Board of Canada, *Corporate Governance and Risk Management: Guide to the Integrated Tool*, 2003.

[7] Broadbent Report

what. Lack of clarity can inhibit a board from ensuring their accountabilities are well-managed and their reporting obligations are met. Given the multiple accountabilities and competing interests that often exist for both public and not-for-profit organizations, this can be especially difficult.

Having been given the responsibility to act, a board has an obligation to answer for its actions. Therefore, public reporting is an extremely important aspect of the accountability cycle. Open and transparent reporting of how an organization's activities and responsibilities have been carried out is critical to ensuring its credibility and to maintaining public confidence in it. This is particularly important in situations that involve public trust and/or utilize public monies. Accountability information needs to be provided on a regular basis to all stakeholders, in an understandable and unbiased fashion, and should include an evaluation of organizational performance.

Observations of RWB	Towards Leading Practices in Governance
Clarification of the RWB board's multiple accountabilities would be useful.	It is generally recognized that "accountability in the voluntary sector is multi-layered - to different audiences, for a variety of activities and outcomes, through many different means, and that this multidimensional nature is the reason why improving accountability in the voluntary sector is such a complex matter."[8] Not-for-profit organizations typically have members and stakeholders, rather than owners and shareholders, causing accountability relationships to be diffused and somewhat more challenging. The multiple accountabilities faced by most not-for-profit organizations require that a board discuss and clarify the various levels of accountability and their requirements. Included in this may be: contractual obligations to funders; moral responsibility to consumers and sponsors; and trust obligations to the public and general community.

[8] Broadbent Report, p.iii

Observations of RWB	Towards Leading Practices in Governance
Annual report of RWB prepared and publicly available.	Annual reports are an important vehicle for accountability, and a key method for communicating organizational performance with stakeholders. Leading practices in annual reporting are moving beyond presenting mere financial data, to telling a "performance story" that communicates public benefits and the value that an organization adds through the results it achieves. It does this by focusing on organizational goals, expressed as measurable targets and reporting achievements against those goals. The OAG has in previous reports outlined eight attributes of effective performance reporting.[9] The first four relate to the content of performance reports, which should include: Expected Results; Critical Success Factors and Strategies; Actual Results; and Future Directions. The remaining attributes pertain to the quality of the performance information, which should be: Understandable; Relevant; Reliable; and Complete and Balanced.

ATTRIBUTE 2: Rationale and Link to Community

A board's legitimacy comes, in part, from it being comprised of individuals who have the appropriate mix of knowledge and skills, and who represent the appropriate stakeholders and/or community. By being representative of their stakeholders/community, board members are perceived to reflect the desires, needs, values and perspectives of that community. This is what forms the link between the governors and those governed. Clarity as to whom a board member represents, and on whose behalf they act, is therefore a fundamental component of effective governance.

Recruitment, the process of ensuring that a board is comprised of people with the necessary knowledge, ability and commitment to fulfil their responsibilities is an important board function and a key component to ensuring effective governance. The specific board governance structures, processes, and activities can vary significantly from board to board. As such, even the most experienced board member must be provided with sufficient and appropriate orientation when newly appointed to a board. A formal orientation process needs to be a continuing and repetitive process that is incorporated into ongoing board functions. Further, studies indicate that high-performance boards are also more likely to provide training and developmental opportunities for board

[9] Refer to December 2002 OAG Report entitled, *Performance Reporting in Annual Reports: Current Practices Among Crown Entities*. www.oag.mb.ca

members throughout the course of their tenure, and that "one of the most critical, and often overlooked, aspects of board orientation is development of board member competence in understanding financial statements".[10]

Observations of RWB	Towards Leading Practices in Governance
The RWB board is comprised of highly qualified members, with a varied mix of perspectives and experience.	The mix of skills and expertise brought together on a board provide valuable perspectives and insight to management. As the organizational challenges faced by not-for-profit organizations change over time, the composition of the board and the skillsets and expertise which may assist the board in dealing with issues should also change. Leading practices are delegating responsibility for the succession planning process to Nomination Committees, who should maintain current inventories of board member skills and identify any existing gaps or future board requirements, in order to establish recruitment criteria and enhance the board's appointment or election process.
Current size of the RWB board is consistent with leading practices.	
Development of a succession plan and recruitment criteria would assist in filling board member vacancies as they occur.	
Orientation of new RWB board members is done informally.	Regardless of the expertise of incoming board members, a formal orientation program should exist to introduce them to the specific processes, structures, and activities of the board. This would include a clear outline of board roles, responsibilities, and structural relationships, as well as board by-laws and the mandates/terms of references of any board committees. Biographical information on fellow board members, as well as key staff, should be included. Facility tours and introductions to significant internal or external contacts should be carried out by the Chair or an experienced board member. This information could also be developed into and incorporated within a board manual.

[10] Institute on Governance, p.17.

Observations of RWB	Towards Leading Practices in Governance
Ongoing training and developmental opportunities are not provided regularly to RWB board members.	Lack of financial resources to support the governance function in not-for-profit organizations is often a key impediment to providing ongoing developmental opportunities to board members. However, even seasoned board members benefit from continual upgrading in key governance competencies (such as financial literacy and risk management), and/or from sessions devoted to enhanced understanding of key issues facing the organization. Leading practices suggest providing such sessions at annual board retreats, or by inviting external speakers to provide presentations on key topics at the end or beginning of board meetings. As well, some boards provide opportunities for board members to attend conferences on governance, financial issues and/or project-specific topics.

ATTRIBUTE 3: Board Roles, Responsibilities and Functions

Board literature generally ascribes three primary roles to a board, and each of these board roles has different functions and expectations associated with it:

1. That of holding overall authority
    - As the ultimate authority, a board provides leadership in setting the vision and strategic direction of the organization, and takes responsibility and accountability for the mandate and goals of the organization being achieved.
2. That of providing feedback and commentary on the functioning of the organization
    - As a constructive critic of the organization, a board examines what has been accomplished or is being proposed, and provides feedback and commentary.
3. That of representing and being an advocate for the organization
    - As an advocate, the board represents, advances, and celebrates the contributions of the organization to the community.

These three roles can each require quite different mindsets and behaviours. As what is required in one role may conflict with another, it is important for a board to be clear on which role is being performed at any given time.

Each of the three board roles have a number of associated functions. Some of the general functions of a board include:

As Ultimate Authority:

- Setting the strategic direction and goals of the organization.
- Selecting and replacing executive management of the organization.
- Setting significant policies by which the organization operates.
- Ensuring prudent management of the financial resources of the organization.
- Approving strategic and/or significant business decisions.
- Responsibility for collective bargaining, if required.
- Ensuring accountability obligations are discharged.

As Constructive Critic:

- Monitoring achievement of the board's objectives.
- Evaluating the performance of executive management.
- Bringing an external perspective to the organization's attention.
- Ensuring effective internal control mechanisms are in place.

As Advocate:

- Collaborating effectively with external stakeholders and organizations.
- Developing a communication plan for all stakeholders of the organization.
- Advocating on behalf of the organization, as required.

Observations of RWB

Clarification on the role and expectations of RWB board members would be useful.

Towards Leading Practices in Governance

Research in not-for-profit governance indicates that "clarity of roles and the expectations/motivations that board members bring to them appear to be at least as important to good governance and organizational effectiveness as the particular governance ...odel employed."[11] Developing a shared understanding and clear expectations of the collective role of the board as well as of individual board members is essential to effective governance. As a board fulfils different roles for its organization at different times, board members must be clear on what is expected of them, both as individuals and the board as a collective. One area often requiring clarification in not-for-profit organizations is the board's role and level of involvement in fundraising. Fundraising is often the

[11] Institute on Governance, p.26.

Observations of RWB	Towards Leading Practices in Governance
	most visible activity of a not-for-profit organization and is often an important means by which the organization builds relationships with its community. Some boards establish committees as required to deal specifically with fundraising issues and to clarify the expectations of board members with respect to fundraising.
The RWB board adopted a Policy Governance approach[12] a number of years ago, and has adapted it to reflect their specific context. Enhanced clarity on this approach and its adapted elements is required.	Clarity with respect to the governance approach adopted by a board is extremely important to ensuring effective governance. As every board is unique and operates in a distinctive environment and set of circumstances, the governance approach adopted by a board may need to be modified over time to reflect a board's current challenges. However, it is incumbent upon a board to then ensure that the particular details of the approach are discussed and clearly understood by all board members, and that training is provided, as required.

ATTRIBUTE 4: Level of Board Member Commitment

Effective board governance requires commitment. Members of any board need to commit both individually and as a group to the goals of the organization and the processes set in place for a board to achieve them.

Board governance literature often assumes that board members will give to their board all the time and energy that is needed for good governance. This assumption may not accurately reflect that the part-time position of board member may conflict with other salient responsibilities (that of full-time career, wife/husband, parent, etc). Moreover, it does not recognize the composition of a board as a group, in which some members may not see that their contribution of time and energy makes a difference, and thus, may leave the actual work of governance to others.

[12] See Footnote 4.

Observations of RWB	Towards Leading Practices in Governance
Board members are highly committed to the RWB and care about their contribution to the organization.	Members of not-for-profit boards are generally unpaid volunteers. Yet it is not uncommon to find that not-for-profit organizations have some of the most committed and longest serving board members. This high level of commitment is critical to the success of most voluntary organizations. In the RWB example, the commitment of board members through a period of organizational change is indicative of their care for the organization, and their keen awareness of their stewardship and leadership responsibilities.

ATTRIBUTE 5: Information for Decision-making

Information is the key contributor to effective board decision-making. Board members have a duty to demand and expect quality information, on a timely basis for decision-making.

Information is often assumed to be neutral and unbiased; it is not. Information is developed and perceived through particular views and paradigms. It is generally prepared for a specific purpose, which needs to be kept in mind when interpreting the information. There are two major strategies used to counteract these limitations with information. The first is to involve several people in a decision. Thus, through the various individuals on a board, different perspectives are brought together in decision-making, which balances the sole perspective of any one decision-maker. The second is to have more than one source of information. Multiple sources of information may serve to counteract any distortion that exists in a single source.

The most common area where all boards can improve is on their sole reliance on internal sources of information, and the enhanced use of external sources of information. For many boards, the annual external audit is the only information that boards receive that is independent of the reports it receives from senior management. However, utilizing external sources of information, independent of the administration, is one of the key areas that distinguishes high performance boards.

Observations of RWB	Towards Leading Practices in Governance
RWB board members are generally satisfied with the information provided to them, noting that it is pre-circulated in sufficient time, and that the volume of information is not overwhelming.	The importance of ensuring that a board is provided with the quality of information required to make effective and strategic decisions cannot be understated. Boards are commonly too passive in articulating their information needs, and often act simply as recipients of whatever information is provided by management. It is a board's responsibility to control the agenda, thereby identifying what strategic decisions/issues are being looked at, and then what information is required to best inform those decisions. Boards must assess their information needs on a regular basis and recognize that the information they require to perform the functions of governance is not always identical to the information produced to inform management decisions. Boards should have sound information related to the strategic aspects of organizational performance. Governance information should also allow the board to ensure that its policies and directives have been implemented. A framework of the typical kind of information that boards need to support their governance responsibilities and communicate their organization's performance has been developed by CCAF.[13] The qualities of useful governance information include that it: be forward-looking; explain options; compare intentions with results; facilitate comparisons; and promote understanding without oversimplifying.
Financial stewardship and fiscal stability is a key priority for the RWB board, and enhancing financial reporting was seen to be valuable. Board approval of annual budgets does not occur; which was attributed to the Policy Governance approach.	Ensuring the financial and organizational health of the organization is a critical component of good governance. Boards are required to ensure funds are appropriately spent, accounts properly maintained, and in a not-for-profit organization, that future revenue needs are provided for. A recent study found that "30% of not-for-profit organizations examined experienced serious financial difficulties due to insufficient board attention to their responsibility to oversee financial activities... [and that] many not-for-profit boards demonstrate a tendency to leave financial matters to a Finance Committee or Treasurer".[14]

[13] CCAF, *Information: The Currency of Good Governance*. Web link: www.ccaf-fcvi.com

[14] Institute on Governance, p.17 and 23.

Observations of RWB	Towards Leading Practices in Governance
	Leading practices require strong financial oversight by the board, as well as regular review and analysis of long-term financial trends on key business lines. Given the board's financial oversight role, final approval of the annual budget rests with the board, regardless of the governance model utilized. The annual budgeting process provides an opportunity for board-management dialogue around the difficult choices that typically need to be made in a not-for-profit organization to ensure that limited funds are allocated to the most strategic priorities.

ATTRIBUTE 6: Board Organization

To do its job effectively, a board needs to be well organized with the appropriate processes and structures in place to accomplish its goals. This includes structural components like adopting and following appropriate by-laws; and having an adequate number of board committees with clear mandates in place to facilitate the work of the board. It also includes matters such as the size of the board, and the number of meetings held per year.

Board culture is often defined as the capacity of board members to work well together in order to advance the aim and goals of the organization. An appropriate board culture is one in which all board members feel free to participate, contribute, and challenge assumptions without hesitation, and where conflicts are resolved in a timely manner.

Observations of RWB	Towards Leading Practices in Governance
RWB board structures were noted by board members as effective and good teamwork reported.	It has been argued that "what makes boards great are not rules, regulations and mandates but simply how people work together".[15] Leading practices require that a board holds sufficient meetings to conduct its business, and adequate time is devoted to discussion and consensus building. Good teamwork and positive working relationships that highlight a willingness to engage in rigorous debate, to ask and receive answers to tough questions reflect a board culture that contributes to effective governance. Having board members who attend, are prepared, engaged in the

[15] Jerry Sonnenfeld, *What Makes Boards Great*, Harvard Business Review, September 2002.

Observations of RWB	Towards Leading Practices in Governance
	discussion, and willing to take an opposing view when required, are often the type of measurement indicators utilized by self-evaluations in assessing board effectiveness. Dysfunctional boards commonly have opposing factions, members who "lobby" their personal agendas either overtly or secretively, and/or a 'rubber-stamping' culture. Leading practices also suggest designating some board time to meeting without the presence of management or administrators. These 'in-camera' sessions are often included as a component of all board agendas, and allow the board to discuss concerns freely.
Committee structure established by the RWB board is unique and requires clarification to ensure a common and consistent understanding.	Board committees play a valuable role in ensuring the board is able to conduct its governance responsibilities and that it receives carefully considered information. Committees that are specifically tasked with an issue to research/review for the board can bring well thought out recommendations to the board's attention. The terms of reference and authority of committees need to be clearly articulated. Generally committees examine issues and prepare recommendations for full board action. Authority to act on behalf of the board should be limited to specific circumstances and should have prior approval of the board, as the board is not absolved from responsibility for the committee's work or decisions. The Policy Governance approach that is adopted by many not-for-profit boards observes that traditional standing committees created to mimic organizational structure are not constructive. This approach advises that committees be established on a time-limited, adhoc basis, when required to do specific work for the board. One of the most important committees of the board is the Audit Committee. As a result of recent private sector governance failures, the importance of the Audit Committee's functions has been reinforced. Leading practices require that the Audit Committee monitor organizational practices related to internal control; accounting and financial reporting; internal and external auditing; and compliance with laws, regulations, funding agreements, and any internal code of conduct.

ATTRIBUTE 7: External Board Relationships

A board never operates in isolation. While a board is generally independent and autonomous, it is also interdependent with its community and the context within which it operates. There is a need for boards to understand their environment and the other actors, stakeholders, and competitors in the system. Significant external relationships for a board include its clients, its funders, any partners or service providers, as well as the public and community at large. Ensuring effective communication, consultation and collaboration with external stakeholders is an important component of good governance and a critical board function.

Observations of RWB	Towards Leading Practices in Governance
Like most not-for-profit organizations, funders are the external relationship that is dealt with most by the RWB. Relationships with other stakeholders could be enhanced.	Generally the board is expected to reflect the views, perspectives and interests of all stakeholders within the system. The numerous external relationships that impact a not-for-profit organization make it difficult for boards to do so. It should also be noted that not-for-profits are subject to high levels of scrutiny from funding authorities, the media, and the general public. Predictably, funding authorities are the major external relationship which consumes a not-for-profit board's focus. However, devoting time to enhancing relationships with other key stakeholders and articulating communication plans/activities are an important element to ensuring effective governance. High performance boards are more likely to have developed positive relationships with key stakeholders, as well as a high degree of key stakeholder agreement on mission and values. Leading practices further note that "openness, transparency of activities to the public at large, and two-way communication between an organization and its members and constituencies are qualities that underpin successful stewardship".[16]

[16] Broadbent Report, p.25.

ATTRIBUTE 8: Internal Relationships

The relationship between a board and its senior executive management (generally a Chief Executive Officer) is one of the most important internal relationships for a board. The senior executive acts, in most cases, as the main conduit of information between the administration and the board. S/he generally sits at the apex of the management team, and is responsible for the implementation of board decisions. While a board member's position is part-time and for a specified term, the senior executive's position is full time, often permanent and a source of professional prestige and livelihood. Although the board, as ultimate authority, hires and evaluates the senior executive, that person accrues power from his/her greater knowledge of the functioning of the organization, his/her awareness of its history, and through peer relationships built over time. As such, the relationship between a board and its senior executive is a key contributor to any organization's success.

The board form of governance assumes that, as the board has ultimate authority, any authorities not specified by the board are retained by the board, who can then decide to delegate it, when and as the situation warrants. If these residual authorities are perceived to automatically fall to the authority of the senior executive, an erosion in the board form of governance may be perceived to occur. It is important, therefore, that there be clarity in the allocation and sharing of power and authority between a board and its senior executive. Even in a Policy Governance approach, board policies and sub-policies, as well as monitoring mechanisms, are put in place to the extent that the board feels comfortable with the delegated levels of authority.

Observations of RWB

The RWB functions under a dual reporting structure referred to as the Chief Executive Partnership, comprising the Chief Operating Officer and the Artistic Director. Formal performance evaluations occur on an annual basis. As well, monitoring reports from the CEP are provided to the board on a regular basis.

Towards Leading Practices in Governance

Clarity of the roles and responsibilities of the senior executive is an important aspect to board governance. Job descriptions, which clearly delineate the responsibilities and delegated authorities of senior management, should be in place. Boards are expected to assume an active role in overseeing management by ensuring an appropriate and regular evaluation of performance. While management's primary job is to develop and implement strategies that respond to the overall vision and direction put in place by the board, a board's role is to effectively monitor the performance and results achieved by its senior executive in implementing their strategic direction.

ATTRIBUTE 9: Board Effectiveness and Impact

All of the foregoing attributes integrate to create the overall contribution of a board to its organization: the contribution of good governance.

Determining the effectiveness of a board has been the subject of much research. As no objective indicators of effectiveness have been developed, the standard approach is to ask board members to self-assess their perception of board effectiveness. However, the limitation with this approach is that it is strictly a value-judgement made by those directly involved, and research studies have indicated that people, in making such value-judgements of their own effectiveness, are largely overconfident.

To move beyond self-assessments of effectiveness, our Model of Governance looks at how a board actually impacts, or makes a difference to, the organization for which it is responsible. While some board evaluations use policy creation as a measure of impact, we did not feel that this policy perspective provides a unique activity upon which to assess board effectiveness, as many different parts of an organization are involved in the development and implementation of policy. Boards do, however, specifically make decisions. Hence, the Model of Governance defines a board's service to its organization as its decisions. In order to more objectively assess board effectiveness, the Model examines board members' perceptions of the quality of their board decisions. The subsequent impact of a board's decisions is deemed to be the board's desired outcome on the organization.

"In the final analysis, ...the role of the board is the exercise of informed judgement - which may involve the courage to say 'no', and will very likely involve some modifications to the proposals and plans of execution brought to the board."[17]

Our research has found that board members generally believe their board to be effective when the organization is effective. However, it is our belief that board effectiveness should be differentiated from organizational effectiveness. It should not be assumed that board is effective when its organization achieves success, nor conversely, that a board is ineffective if its organization experiences difficulties. Distinguishing board effectiveness from organizational performance necessitates that a board be clear on its desired outcomes and that it establish objective measures to evaluate its unique contribution.

[17] Institute of Corporate Directors, *Is Regulation Enough?*, Director, February 2004

Observations of RWB	Towards Leading Practices in Governance
A board evaluation process has not been established by the RWB board.	A board should monitor and evaluate its own performance in achieving its governance objectives. In fact, "ensuring the soundness of the governance system" which includes monitoring developments and leading practices in governance, as well as making necessary changes as required, is being recognized as a key governance task.[18] Studies indicate that periodic board evaluations contribute to board effectiveness, and that the evaluation process has a positive impact on board functioning. Many boards in both the for-profit and not-for-profit sectors have not fully implemented such an evaluation process. In order to adequately measure its effectiveness, a board will need to develop performance indicators (or proxy measures) for the board's unique contribution to the organization. Best practices in board evaluation will include: - Evaluating the performance of the board as a whole; - Evaluating the performance of board committees; - Evaluating the contribution of individual members against pre-determined criteria; and/or a peer review conducted through an independent reviewer.

[18] Institute on Governance, *The New Rules of the Board Game*, p.13.

Concluding Observations

Effective governance of a not-for-profit organization does not simply occur when board members sit around a table, as if by magic. Rather, it takes hard work and sustained effort by all involved. And as with all such human endeavours, the effectiveness of governance can always be improved. The result of such efforts is improved organizational effectiveness, and stronger accountability processes. These are key components to ensuring that the citizens of Manitoba are well served by the many not-for-profit and voluntary organizations that exist in our community.

We thank the board members and senior management of the RWB for allowing their board to act as the example in this report of not-for-profit governance. Their accessibility and candid responses in this review reveal a strong commitment to enhancing the effectiveness of their governance practices.

The Model of Governance presented in this report outlines a number of key attributes for effective governance. However, there is no "one size fits all" solution for effective governance. Rather, it is hoped that this report provides some guidance towards adopting leading practices in governance, and stimulates an active and thoughtful dialogue among all not-for-profit boards in Manitoba's voluntary sector on enhancing their board governance practices.

Comments from The Royal Winnipeg Ballet

The Board of the Royal Winnipeg Ballet serves an organization that extends far beyond the scope the name implies. The RWB is comprised of the company of dancers the audience sees on the stage, a wardrobe and properties department that enhances what is presented on that stage, a School that trains dancers for the future, a residence that houses those students - who come from all around the world. The administrative and artistic teams provide the leadership and skills that give the RWB the opportunity to perform. As well, the RWB touring capabilities have allowed the company to perform in over 550 cities on six continents. While the Board felt its governance model served the complexities of the organization well, we welcomed the opportunity to work with the Office of the Auditor General to assess the model's strengths and weaknesses. The interview process and the results therein opened the door to a review of board practices that has led to a re-emphasis of already established practices, and re-enforcement of those which have been declared priorities. Since receiving a copy of the report, at every Board meeting we examine an attribute and the corresponding observation of the RWB. That a number of the recommendations were already in place is a testament to the commitment of the RWB Board. On behalf of the Board and senior staff of the RWB, I would like to express our appreciation to the Office of the Auditor General and particularly Maria Capozzi, Principal, Governance Services.

Response from Government

It is very timely in this world-wide setting of increased focus on internal controls and board independence that advice be provided to all not-for-profit organizations. Reports such as this should be of great value to not-for-profit organizations to understand the importance of segregating the roles of the board and the management of their organizations. Our mutual challenge will be to ensure they understand the importance of good governance and maintaining effective internal controls.

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